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London Pensions Fund Authority

Medium Term Financial Plan (MTFP)

2022-25

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London Pensions Fund Authority
Medium Term Financial Plan (MTFP) 2022-25

1. Executive summary

1.1 We are the London Pensions Fund Authority (LPFA), the largest Local Government Pension Scheme (LGPS) provider in London. Our pension fund had a balance sheet value of £6.9 billion, as at 31 March 2021, and we are responsible for the provision of pension benefits for 91,675 members. Of these, 20,115 are employees working for not-for-profit, charity, private sector and local government employers, 35,963 are pensioners and dependants, 6,700 are undecided leavers and frozen refunds, and 28,897 are deferred beneficiaries.

1.2 This MTFP describes how the LPFA 2022 Strategic Policy Statement (SPS) is resourced, and updates the forecast MTFP previously presented to the LPFA Board in March 2021. The 2022 triennial valuation will provide updated actuarial assumptions for the period spanning 1 April 2023 to 31 March 2026, and the provisional MTFP estimates will be updated to reflect these changes at that time. The purpose of the MTFP is to outline and update the three-year financial strategy and financial forecast for the use of resources comprising both income and expenditure.

1.3 Looking ahead, 2022/23 is the final year of our triennial valuation and the penultimate year of the 2021 – 2024 MTFP. During 2021/22, the LPFA experienced significant change in its business model, as well as robust growth in the net assets of the scheme, which enhanced the LPFA's financial standing and its ability to meet future challenges. The fund has consistently achieved its ambition to maintain a funding level close to full funding on a risk adjusted triennial valuation basis, exceeding this assumption by 8.2% when measured from the 2016 valuation to the 2019 valuation.

1.4 The LPFA has a proud history, since its inception in 1989, of supporting its members, employers and London boroughs in ensuring pension promises to its members. The LPFA strives to continuously achieve its aims of paying members their pensions and other benefits as they fall due, whilst maintaining as far as possible, stable contributions for our employers. Added to these are our strategic ambitions to remain sustainable and collaborative.

1.5 As part of a strategic initiative to strengthen the services we deliver, we have been insourcing activities previously outsourced to Local Pensions Partnership Ltd (LPP Group) as part of the 2016 establishment of LPP, largely as they had the resources and LPFA was to operate on a small resource base. As LPP has matured into standalone administration and investment businesses, the LPFA is currently refining and resetting much of its operational and business practices via taking back a number of back office functions. Consideration of risk and timing sits alongside best practice, value for money, and a supportive people strategy that will allow us to operate efficiently and effectively as we change and adapt to future challenges outlined in MTFP and SPS. In the short-term, the LPFA Board remains supportive of evolving the LPFA operational model to build greater resilience, sustainability and opportunities for collaboration.

2. About us

2.1 The LPFA was established by the London Government Reorganisation (Pensions etc.) Order 1989 (the “1989 Order”) on 31 October 1989, to take over certain functions of the London Residuary Body (LRB) (including in respect of the former Greater London Council Fund (GLC) and Inner London Education Authority Fund (ILEA) and associated liabilities, with effect on and from 1 April 1990). On 1 April 1986, the LRB was established and took over the functions of the GLC Fund from that date. It later took over the functions of the ILEA Fund (under section 164 of the Education Reform Act 1988) with effect on and from 1 April 1990. In 1996, the LRB was wound-up, and the liabilities remained with the LPFA.

2.2 During 2015-16, the LPFA entered a commercial partnership as an equal equity shareholder with Lancashire County Council (LCC) to form a pooling partnership with Lancashire County Pension Fund (LCPF). This joint venture created the LPP Group, a wholly owned subsidiary of both administering authorities. The LPP Group created two subsidiaries to manage Pension Investment Management and Advisory Services and Pension Administration. In the five years to 2021, this strategic partnership achieved investment savings of £46 million and reduced administration costs from £58 per member to £21 per member.

2.3 The MTFP has been prepared on the assumption that the partnership with Lancashire will continue and that LPP will continue to be in place for the duration of this planning period.

3. Context and background

3.1 The financial year 2022/23 is the penultimate year of the three-year MTFP 2021-2024. This plan sets out the financial framework to ensure the LPFA can continue to operate on a sustainable and sound financial footing; and continues to ensure that the LPFA’s limited resources are invested in the activities that have the greatest impact on the delivery of the SPS. The MTFP also helps ensure that sufficient resources are in place to meet future policy commitments to provide a strong financial basis to protect the LPFA from any future financial uncertainty and bolster financial resilience over the long term.

3.2 The LPFA is required, under the GLA Act 1999, to provide the Mayor with a draft SPS and budget for the forthcoming year by 31 December. The Mayor is required to provide any comments on the plans by 31 January and the LPFA is required to consider the Mayor’s comments before finalising the MTFP.

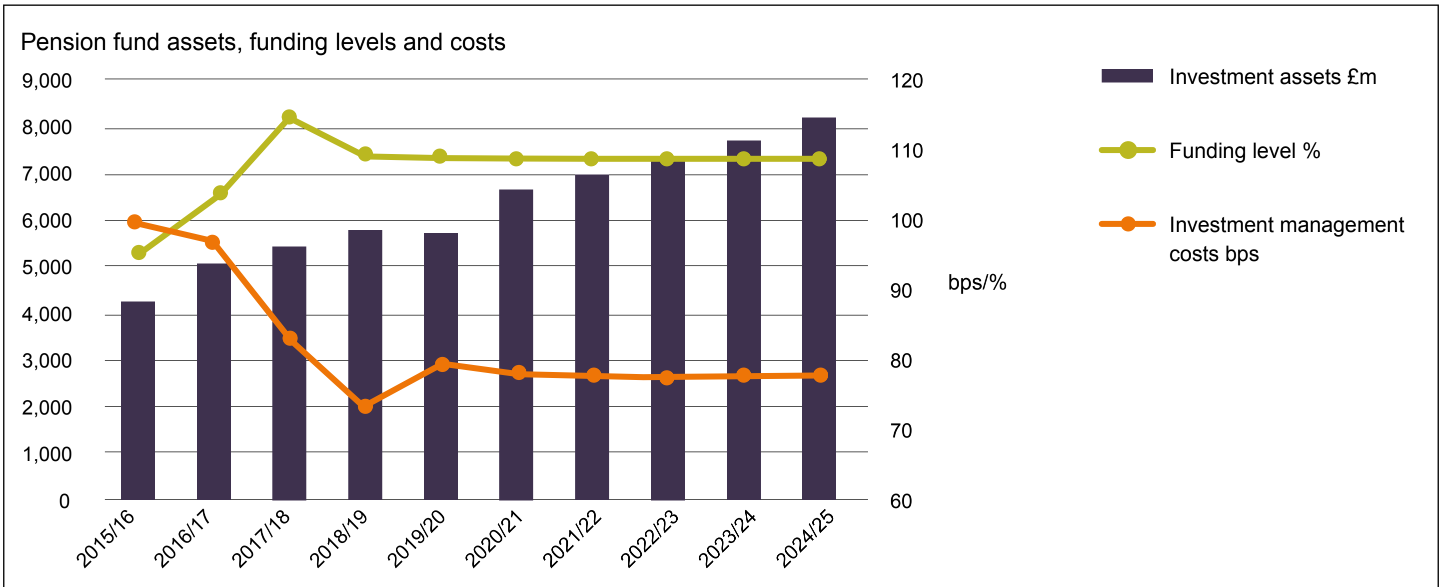
3.3 The LPFA issues its levy letter to the London Boroughs each February. The London Boroughs use this information in setting council tax before 11 March for the following financial year.

4. Strategic opportunities and challenges

4.1 In shaping the MTFP, and through our outcomes-focused approach, the Board acknowledged that there was an inevitable need to invest and develop capacity within the LPFA to enable longer term ambitions and benefits to be realised, as well as addressing new pressures, and funding priorities. We have now insourced all corporate functions previously outsourced to the LPP Group, with the exception of HR and IT services, to allow us to focus on achieving our strategic aims and addressing emerging priorities; these include:

- **London Boroughs Levy:** London Councils are facing increasing pressures following the coronavirus pandemic (COVID-19) and the ensuing demand for public services. At the same time, there remains an £140 million deficit, as at 31 March 2019, in the LPFA Fund pertaining to historic GLC and ILEA liabilities arising from the past employment obligations of London Authorities. The Levy has not been increased since 2010 and therefore has reduced in real terms by 25% over the past 12 years.
- **Triennial Valuation 2022:** the LPFA is preparing employers for the 2022 valuation and is supporting employers to achieve a good state of readiness. This is one example where there has been benefit in taking back inhouse employer management professionals from LPP, allowing the Fund to have more engagement with individual employers on a range of financial and funding matters, including preparation for the next Valuation.
- **Climate Crisis:** In September 2021, the LPFA declared its commitment to becoming a net zero carbon pension fund. As a formal signatory to the IIGCC Framework, we have 12 months to develop a detailed, transparent plan of action, but this requires additional time and resource to deliver. We expect further pressures to evolve across Responsible Investment (RI) and climate change during the remainder of the MTFP period, and those requirements will also require significant focus, time and resources to be deployed. The LPFA is working closely with climate change leads within the Local Pensions Partnership Investment business, (LPPI), which has itself signed up to IIGCC framework as an asset manager.
- **Pooling:** The Fund’s assets are fully integrated within a pooling structure delivered by the LPP Group, and the savings derived since 2014/15 are outlined in the table on the next page. Note that the funding level below is that as at 31/3/19 and will not be formally updated until after the 31/3/22 Valuation.

	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
Investment asset £m										
Pooled		2,276	3,578	4,776	5,332	6,228	6,539	6,866	7,210	7,570
Non-pooled		2,711	1,797	1,022	450	533	544	571	599	629
Derivative				(8)	(49)	20				
Investment asset	**4,194**	**4,987**	**5,375**	**5,791**	**5,733**	**6,781**	**7,083**	**7,437**	**7,809**	**8,200**
Funding level	**95.2%**	**103.9%**	**114.4%**	**109.0%**	**109.0%**	**109.0%**	**109.0%**	**109.0%**	**109.0%**	**109.0%**
Investment fees bps on pooled/ non-pooled assets										
Pooled Fees bps on pooled assets	26.75	113.35	77.14	57.54	66.33	84.04	84.04	84.04	84.04	84.04
Non-pooled Fees bps on non-pooled assets		82.63	94.59	182.40	305.34	66.07	68.03	68.03	68.03	68.03
Pooled/ non-pooled fees bps on investment assets										
Pooled Fees investment and transactions (bps)	26.70	51.73	51.35	47.46	61.69	77.19	77.59	77.59	77.59	77.59
Pooled Performance Fees				4.70	33.25	56.81	57.11	57.11	57.11	57.11
Non-pooled Fees bps on investment assets (bps)	73.20	44.92	31.63	23.86	17.61	5.93	5.97	5.97	5.97	5.97
Non-pooled Performance Fees bps				8.34	6.36	-0.74	-0.74	-0.74	-0.74	-0.74
Bps on total investment assets	**99.90**	**96.65**	**82.98**	**84.36**	**118.92**	**139.19**	**139.92**	**139.92**	**139.92**	**139.92**
Investment fee cost £m										
Pooled Fees investment and transactions £m	11.20	25.80	27.60	27.48	35.36	52.34	54.96	57.71	60.59	63.62
Pooled Performance fees				2.72	19.06	38.52	40.45	42.47	44.60	46.83
Total pooled fees £m	**11.20**	**25.80**	**27.60**	**30.20**	**54.43**	**90.86**	**95.41**	**100.18**	**105.19**	**110.45**
Non-pooled fees £m				13.82	10.09	4.02	4.23	4.44	4.66	4.89
Non-pooled performance fees £m	30.70	22.40	17.00	4.83	3.65	-0.50	-0.53	-0.55	-0.58	-0.61
Total non-pooled fees £m	**30.70**	**22.40**	**17.00**	**18.65**	**13.74**	**3.52**	**3.70**	**3.88**	**4.08**	**4.28**
Total fees £m	**41.90**	**48.20**	**44.60**	**48.85**	**68.17**	**94.39**	**99.11**	**104.06**	**109.26**	**114.73**



5. MTFP overview

5.1 This MTFP update, in summary:

- Presents the updated budget and funding proposals that will enable the LPFA to balance its budget in 2022/23 and utilise available resources towards the achievement of the LPFA objectives and outcomes of collaboration, sustainability and quality member experience.
- Provides an update on the overall medium-term financial position for the LPFA, including updates on other government announcements and the main areas of financial risk.

5.2 The MTFP is presented in three parts:

- The Pension Fund – comprising £6.92 billion as at 31 March 2021 of assets under management. The Fund receives employer and employee contributions from 124 active employers participating in the Fund and funds pension payments to 35,963 pensioners and dependants.
- Pension Fund Oversight and Governance – comprises the cost of running the organisation including the IAS19 liability relating to the LPFA team and strategic oversight functions.
- Residual Liabilities Account – comprises the on-going payments of annual statutory compensation following the abolition of the GLC, ILEA and LRB. These payments are financed by a levy on all London Boroughs. These accounts also include substantial provisions for injury claims from former employees of the GLC and ILEA in relation to asbestosis.

6. LPFA Pension Fund

6.1 The MTFP does not review the LPFA funding strategy as the Fund's actuarial valuation (the Valuation) is both a sufficient and necessary risk management exercise with the purpose of reviewing the current funding plans and setting contribution rates for the Fund's participating employers from 1 April 2020 to 31 March 2023. The Valuation principles are included in the MTFP as part of a holistic approach to the assessment of the adequacy of financial risk management and the robustness of financial planning.

6.2 The purpose of the Valuation is to review the current funding strategy and ensure the Fund has a contribution plan and investment strategy in place that will enable it to pay members' benefits as they fall due. Further information on this can be found by reference to the following publicly available documents:

- The Funding Strategy Statement;
- The Investment Strategy Statement; and,
- Published meeting papers and minutes for the quarterly meetings of the LPFA Board.

6.3 Considering these strategies alongside the valuation report will provide a more complete view of the LPFA funding strategy and decision making surrounding this. The three year MTFP is a snapshot of the pension fund at a very short window in the life of a pension scheme. Our ongoing responsibility is to pay benefits over a period of the next 80 years or more, whilst still welcoming new members to join now and in the future.

6.4 The valuation approach quantifies the likelihood of the contribution plan and investment strategy for each employer being sufficient to fund future benefits. The MTFP summarises the actuary's key planning assumptions for income and expenditure, as well as known costs arising from service level agreements with LPP. The pension fund assumptions are based on economic indicators, which include unknowns and uncertainties such as the return from investment seeking assets and future inflation.

6.5 The economic indicators used are:

Assumption	Economic indicator
Benefit increases	Future Consumer Price Index (CPI) inflation expectations
Career Average Revalued Earnings (CARE) revaluation	Future CPI inflation expectations
Salary increases	3.6% p.a.
Future investment return	Future CPI inflation expectations plus 3.6% p.a.
Primary contribution rate	15.2% of pay p.a.
Average employee contribution rate	7.2% of pay

Investment return

6.6 The actuarial funding level is based on an assumed investment return of CPI plus 3.6%. The derivation of this assumption is set out in the actuarial valuation report for the Fund. This MTFP does not forecast returns from investment seeking assets since investments move up and down, and investment projections would contain inherent uncertainties to the extent that actual results may be materially different from forecast provided.

6.7 The cash and funding sources table below sets out three key components of cashflow:

- The actuary's expectations for income and expenditure of the pension fund up to 2022/23, with an extrapolation for the two years that fall outside of the current valuation to 2024/25;
- Charges occurring under various service level agreements with Local Pensions Partnership Administration Limited (LPPA) and Local Pensions Partnership Investment Limited (LPPI); and,
- Recharge to the pension fund for the Operational and Governance expenditure.

Table 1: Cash and Funding Sources to the Pension Fund

Cash and funding sources	Forecast 2020-21 £m	Forecast 2021-22 £m	Budget 2022-23 £m	Budget 2023-24 £m	Budget 2024-25 £m
Dealings with Members					
Employee contributions	42.5	40.6	42.1	43.7	45.2
Employer contributions	88.7	85.8	88.9	92.2	95.5
Employer deficit contributions	14.8	13.9	14.4	15.0	15.5
Pensions benefits	(241.1)	(245.2)	(248.6)	(256.3)	(264.3)
Lump sums	(33.2)	(31.3)	(33.2)	(33.2)	(33.2)
AVC & Lifetime Tax	(1.8)	(1.7)	(1.8)	(1.9)	(1.9)
Transfers in	10.8	–	–	–	–
Transfers out	(14.1)	–	–	–	–
Net (withdrawals) from dealings with Members	**(133.4)**	**(137.9)**	**(138.2)**	**(140.5)**	**(143.2)**
Management expenses					
Pension administration fees per LPP SLA	(2.2)	(2.2)	(2.2)	(2.2)	(2.2)
Employer risk fees per LPP SLA	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Oversight & Governance	(4.5)	(4.6)	(4.6)	(4.7)	(4.9)
Total management expenses	**(6.9)**	**(7.0)**	**(7.0)**	**(7.1)**	**(7.3)**
Investments					
Investment income	125.8	153.4	132.1	138.7	145.7
Fund performance	834.8	431.9	498.4	518.5	540.0
Pooled charges	(95.3)	(95.3)	(100.1)	(105.1)	(110.3)
Non-pooled fees per LPP SLA	(0.7)	(0.7)	(0.7)	(0.8)	(0.8)
Other investment management non-pooled fees	(2.9)	(2.9)	(3.0)	(3.1)	(3.3
Net return on investments	**861.7**	**486.4**	**526.7**	**548.2**	**571.3**
Net addition from managing the Pension Fund	**721.4**	**341.5**	**381.5**	**400.6**	**420.8**

Source: Barnett Waddingham Triennial Valuation 2019; LPPI SLAs 2021/22.

6.8 The key planning assumptions are detailed below.

i. **Employer and Employee Contributions (Primary, Secondary and Cessation)** – The contributions to the Fund are as assessed by Barnet Waddingham (our Actuarial advisers) of employer contributions that should be paid into the Fund by participating employers for the period 1 April 2020 to 31 March 2023 in order to maintain the solvency of the Fund, and are likely to be sufficient to meet both the cost of new benefits accruing and to address any funding surplus or deficit relative to the funding target over the agreed time horizon. The estimates for 2023/24 and 2024/25 will be confirmed following the results of the triennial valuation 2022 and these estimates updated accordingly.

i. **Pensions Payable and Lump Sums** – The actuary's 2019 valuation report assumption was stated at CPI 2.6%. This MTFP has revised pension increase to CPI 3.1% as of September 2021.

ii. **Transfers** – transfers in and transfers out cannot be estimated with any degree of certainty and have not been modelled across the MTFP.

iii. **Oversight and Governance** – the oversight and governance recharge to the pension fund reflects the running costs of the LPFA and is analysed later in this document.

iv. **LPP SLA Charges** – LPPA and LPPI service level agreements charges will be advised by February 2022, therefore the estimates in this draft MTFP are unchanged from the previous year.

7. Operational and Governance Expenditure

7.1 The Operational and Governance expenditure represents the costs incurred by the Administering Authority in discharging its functions. Operational and Governance expenditure is recharged to the Pension Fund on a quarterly basis. It comprises the LPFA Board and LPFA team costs which, include charges for pension benefits arising under IAS19 and the pension reserve.

7.2 Since the last MTFP, the Central Corporate Costs classification was removed and directorates created. The MTFP 2020/21 for Operational and Governance costs are reproduced in Table 2 below to illustrate this matter. The directorate costs are outlined in the operational and governance budgets at Table 3 below. The directorates are:

- Office of the Chief Executive Directorate;
- Compliance, Legal and Governance Directorate;
- Funding and Risk Directorate;
- Finance Directorate; and
- Communications and People Directorate.

Table 2: Operational and Governance Budget by with the directorates aggregated for illustrative purposes

Medium Term Financial Plan Oversight and Governance	Budget 2021-22 £000	Original Budget 2022-23 £000	Revised Budget 2022-23 £000	Budget 2023-24 £000	Budget 2024-25 £000
LPFA Board	257	261	297	306	316
ExCom	229	233	237	244	252
Central corporate costs	3659	3,326	3,557	3,667	3,781
IAS19 net of ER contributions	456	464	903	931	960
Recharge residual liabilities	(557)	(567)	(563)	(580)	(598)
Support services fee per LPP SLA	510	338	168	168	168
Total Operational & Governance	**4,554**	**4,055**	**4,599**	**4,737**	**4,878**

7.3 The material key changes between the 2021/22 budget and the revised 2022/23 budget, and the delta between the original and the revised 2022/23 budget, are as follows:

- The IAS19 costs have increased mainly due to the increase in current service cost relating to new staff and the associated interest on the liabilities brought in as a result of the TUPE in of staff due to the insourcing exercise.
- The LPFA Board budget includes growth of £16k for recruitment costs and the annual Board awayday. There has also been an agreed increase to the standard Board Member fee from £12k p.a. to £17k p.a. with effect from 1 January 2022. This is the first increase to the fee since before LPP was formed.
- The recharges have reduced due to the LPP finance, governance, and human resource services being fully insourced from April 2022.

Explanatory notes:

1. Inflation is included across the MTFP at 3.1%, being the Bank of England base rate in September 2021. Staff inflation costs are £54k . There is also an increase of £22K due to the new health and care levy of 1.25% and relates to the increase to National Insurance relating to NHS and the social care national budgets.
2. The LPFA establishment increased to 20 full-time employees (FTE) from 11 FTEs in 2021/22. This follows a rationalisation of services and insourcing functions previously delivered by LPP.

Establishment Changes	FTEs	£'000
Compliance, Governance and Company Secretarial Effective 11/2021	2	164
Funding and Risk Effective 31/03/22	1	103
Finance Services Effective 09/21	5	391
Office of the Chief Executive Effective 11/21	1	132
Total Additions since 1 April 2021	9	790

Net Savings from moving services inhouse from LPP are:

Description	Base costs 2020/21 (adjusted for specific inflation to date) 2022/23 £000	Budget for SLA services 2020/23 £000	Budgeted insourced staffing and other services 2020/23 £000	Total budgeted SLA and insourced services 2020/23 £000	Net savings from Adjusted Base Cost 2020/23 £000
Corporate Governance	74	–	–	–	74
Funding and Risk	718	–	188	188	530
ALM Risk Services	183	183	–	183	–
Finance & Audit	487	–	391	391	96
HR	82	–	30	30	52
Communications and People	94	–	69	69	25
Executive Committee allocation	11	–	–	–	11
Accommodation	228	–	228	228	–
IT	153	153	–	153	–
Transfer pricing	90	15	–	15	75
	2,120	**351**	**906**	**1,257**	**863**

3. IT Services will be delivered by LPP for the foreseeable future. Human Resources is earmarked for internal provision by 31 March 2022 funded by a draw down from earmarked reserves under Chief Executive Priorities.

4. The consultancy budgets held within earmarked general fund reserves are:

Earmarked consultancy budgets	Directorate owner	£'000
Shareholder Governance Review Legal Advisory	Compliance Compliance	150 30
Net Zero & RI Funding & Risk Priorities	Funding and Risk Funding and Risk	150 76
Chief Executive Priorities	Office of the Chief Executive	100
Employer Relationships	Office of the Chief Executive	50
Finance System & Transformation Finance Reorganisation	Finance Finance	57 97
Total Earmarked Consultancy		**710**

5. Service Level Agreements between the LPFA and LPP Group charged to the Operational and Governance budget are outlined in table below.

SLA name	Directorate owner	£'000
LPPA Administration	Compliance, Legal and Governance	2,235
LPPI Asset Liability and Risk SLA	Funding and Risk	183
Information Technology SLA	Office of the Chief Executive	153
Transfer Pricing	Office of the Chief Executive	15

The amount paid to LPPI for Assets under Management (disclosed in the Net Asset statement in Appendix 1) is excluded from this table as it relates to Pension Fund services and not Operations and Governance.

6. Operational and Governance has two reserves, with balances as outlined below. The LPFA's General Reserve is maintained to manage the impact of unexpected one-off costs and is supported by a Reserves Policy. Management's judgement on the adequacy of General Reserves reflects perception of the residual risk of emergencies and/or of unexpected events, in the context of the risk management and financial control processes in place.

General reserves	£'000
Balance as at 01/04/19	**1,273**
Per audited accounts	332
Balance as at 01/04/20	**1,605**
Per audited accounts	391
Balance as at 31/03/21	**1,996**
Consultancy reserve	710
	2,706
Reserves to be transferred to the pension fund	(1,996)
Balance as at 31/03/22	**710**
Utilisation of Consultancy reserve	(710)
Balance as at 31/03/23	–

The second reserve relates to the Pension deficit reserve which had a negative balance of £18.4 million as at 31 March 2021.

Table 3: Detailed Budget Reconciliation from 2021-22 to 2022/23

			Changes since last MTFP				
Description	**Business area**	**Budget 2021/22 £'000**	**Inflation £'000**	**Consultancy reserve £'000**	**Growth £'000**	**Savings £'000**	**Revised budget 2022/23 Total £'000**
LPFA Board		**257**	**8**	**–**	**32**	**–**	**297**
CEO		**229**	**8**	**–**	**–**	**–**	**237**
	Office of the Chief Executive	798	8	(100)	251	(181)	776
	Compliance & governance	515	10	(180)	181	(11)	515
	Funding & risk	792	14	(226)	121	(59)	642
	Finance & finance technical	1,167	17	(154)	598	(367)	1,261
	Communications and People	387	5	(50)	83	(62)	363
Directorates:		**3,659**	**54**	**(710)**	**1,234**	**(680)**	**3,557**
SLA Charges:							
	Finance	197	–	–	–	(197)	–
	IT	136	2	–	15	–	153
	Human Resources	80	–	–	–	(80)	–
	Transfer Pricing	50	–	–	–	(35)	15
	Executive	11	–	–	–	(11)	–
	Corporate Governance	36	–	–	–	(36)	–
Total SLA		**510**	**2**	**–**	**15**	**(359)**	**168**
Total IAS19		**456**	**–**	**–**	**447**	**–**	**903**
Recharge	Residual	**(557)**	(6)	(563)			
Expenditure:		**4,554**	**72**	**(710)**	**1,728**	**(1,045)**	**4,599**
ALM Risk		**178**	**5**	**–**	**–**	**–**	**183**
ALM Risk recovery	Pension Fund	**(178)**	**(5)**	**–**	**–**	**–**	**(183)**
Total recharged:	Pension Fund	**(4,554)**	**(72)**	**710**	**(1,728)**	**1,045**	**(4,599)**

8. Residual Liabilities

8.1 The residual liabilities relate to responsibilities transferred to the LPFA following the abolition of the GLC, the ILEA and the LRB due to historical asbestosis claims. Such costs are met from a levy charged on London Boroughs.

- As part of the 2021/22 audit, the number of forecasted asbestosis claims were revised and the provision reduced.
- There is a year-on-year reduction of the management charge paid to LPFA from residual liabilities in line with reducing benefit payments.

Income and expenditure

8.2 A summary of the Residual Liabilities income and expenditure budget for the three years of the MTFP is provided in the table below.

Table 5 Residual liabilities income and expenditure 2021/22 to 2024/25

Residual liabilities	Forecast 2021-22 £000	Budget 2021-22 £000	Budget 2022-23 £000	Budget 2023-24 £000	Budget 2024-25 £000
Greater London					
Unfunded pension costs	(5,239)	(5,497)	(5,083)	(4,934)	(4,792)
Asbestosis provision	(957)	(2,143)	(681)	(700)	(720)
Management expense	(237)	(237)	(231)	(226)	(220)
Interest	215	326	257	300	345
Levy	10,318	10,318	10,318	10,318	10,318
Net inflow	**4,100**	**2,767**	**4,579**	**4,758**	**4,932**
Inner London					
Unfunded pension costs	(10,049)	(9,688)	(9,830)	(9,618)	(9,415)
Asbestosis provision	(1,183)	(210)	(843)	(866)	(891)
Management expense	(320)	(320)	(312)	(304)	(296)
Interest	114	137	135	157	181
Levy	13,065	13,065	13,065	13,065	13,065
Net inflow	**1,626**	**2,984**	**2,216**	**2,434**	**2,644**

8.3 The key planning assumptions in the above projections are as follows:

- **Unfunded pension payments** – in the short term these represent the main costs and have continued to be broadly in line with budget each year. They are reducing over time in line with historic trends as the number of pensioners decline, although this reduction is in part offset by the annual pension's increase which is based on the CPI as at 31 March 2022.
- **Asbestosis provision** – The LPFA's Fund Actuary forecasts that the value of asbestosis claims will fluctuate marginally over the next 7 years before tailing off to 2035. For the purposes of the MTFP it is assumed that the list of ongoing cases at the start of 2020/21 will be settled in the financial year. Future years assume the new cases forecast in each year, as included in the current provision in the audited 2020/21 accounts, will be settled each year.
- The LPFA currently levies more than is required to settle known asbestosis cases to build reserves. The LPFA does this in order to smooth the cost of the cases to the London Boroughs over the period they are expected to originate.
- In addition, the LPFA has been in discussion with the London Boroughs over the past few years that the levy will continue to remain at this level in order to pay for the pension fund deficit attributable to the former GLC/ILEA London bodies. As the requirement of the levy to fund asbestosis costs lessens an increasing amount will be used to pay off the pension fund deficit until this is paid off in full.
- **Management expenses** – these represent a recharge from the Operational Account and are forecast to decline over time in line with the unfunded pension payments.
- **Interest** – represents income earned on cash held at the GLA.

9. Risks

The key risks facing the LPFA over the next three years are as follows:

Outside of direct LPFA control:

- **Brexit/ COVID-19** – There are potential consequences of Brexit and the ongoing COVID-19 pandemic, which could impact investment performance, and funding levels of fund employers. To some extent, some of this uncertainty is likely to be already priced into investment markets. Though this risk is outside LPFA's control, it is partially mitigated by the following:
  – A diversified global portfolio, limiting the impact of the UK economy on the Fund's investments.
  – A funding approach that reflects the prevailing economic conditions within the actuarial discount rate. This means that falls in asset values are typically partially offset by corresponding falls in liability values.
  – LPPI projects expected cash inflow and outflow 12 months into the future, both on a best estimate and "downside" basis. This allows potential cash shortfalls to be identified and managed in advance.
- **Enforced Pooling** – the Government may yet enforce pooling on the LGPS in a manner other than the existing format allows for This would likely lead to significant costs in either dismantling the partnership vehicle or adding additional partners. The LPFA continues to advocate for LPPI's continued evolution to a best-in-class provider of pooled investment services.
- **Future structure of LGPS** – the estimates are constructed based on the current regulations. However, in a three-year time horizon it is possible that further changes emerge that will impact the overall position of the organisation, for example by merging funds or by changes to the categories of employers that contribute to the LGPS (particularly Higher Education and charities).
- **Increasing administrative burden** – additional pressures surrounding the cost cap and McCloud cases could add significant time and cost to the Fund management. While this risk is outside LPFA's control, we have responded to consultations around both issues, and we continue to work closely with LPPA to ensure that they can be delivered efficiently and with minimum disruption to existing processes.

10. Mitigations

- **Employers' default** – whilst the LPFA makes considerable effort to manage the risk of employer default, including the obtaining of security and/or charges over assets and/or levying risk adjusted additional contributions, an employer default could increase the pension burden on remaining employers, potentially resulting in higher contributions from the other employers in the fund. Following the 2019 valuation, the LPFA now holds over £500 million of security, representing around a quarter of the cessation liabilities of tier three employers. We will continue to actively engage with employers particularly now we have strengthened our inhouse Employer Management team, as set out above.
- **Key Assumptions** – the key assumptions made in producing the MTFP were set out at the beginning of the document, and these will require appropriate monitoring by the LPFA team.
- **Success of LPP Group** – LPFA is a 50% shareholder in the LPP Group and shares in any value generated by LPP. The LPFA is able to apply considerable but proportionate direction and influence on the LPP Group, whilst LPFA operations are also subject to satisfactory delivery by the LPP Group. In addition, a new LPFA management team has also been put in place to ensure robust oversight and governance over LPP Group activities for the LPFA. In addition, the overall effectiveness of the current arrangements will be considered as part of a planned review of the terms of the Shareholder Agreement always envisaged in this MTFP planning period.

11. Opportunities

- **London Fund collaboration**

  Over the past two years, the LPFA has conceived and developed the London Fund, a collaboration between London investors (initially LGPS funds, but potentially others too). The London Fund is operated jointly by LPPI and London LGPS CIV Ltd (London CIV) and launched mid December 2020 with LPFA as a seed investor. The fund will invest mainly in real estate and infrastructure projects within London, with the dual aims of:

  - Delivering attractive returns (above the actuarial discount rate); and
  - Delivering a positive social and environmental impact.

  The London Fund offers the LPFA a platform to engage collaboratively with London Boroughs and potentially act as a catalyst for greater collaboration in future. We are pleased to see other London Borough either invest or plan to invest into the London Fund furthering our strategic ambition to increase collaboration for all in the LGPS/local government community.

- **Increased Responsible Investment (RI), Climate change and Environmental, Social and Governance (ESG) activities**

  - More action on climate change would reflect actions already being taken by our employers (Universities, GLA going carbon neutral etc.) and reflects a desire by members to see continued action on the topic. Impact is increased engagement and support for the fund.
  - More action on climate change and more progress on other RI issues (i.e., Living Wage, Diversity) would align ourselves to the Mayor's objectives (and wider political and social issues) and prevent any reputational damage to his office occurring from a disconnect between his policies and our actions, (where aligned).
  - Developing our RI approach and reporting provides 'more to say' to all our stakeholders, gives us a platform to open conversations up with conferences and media and assist our efforts to engage with the increasing number of activists, media or lobby groups.
  - Action supports London's profile and reputation as a progressive, forward looking city. We continue to be an active partner in the c40 Cities Invest/Divest Initiative of international cities where the Mayor has become Chair for the forthcoming year.
  - The public desire to see pension schemes becoming more 'socially aware' is not going away - being an early adopter and understanding where we stand on specific issues will build the LPFA's capacity early, on and this is in line with our approach to identifying and managing risk. Failure to be on top of how we respond to a range of social issues will simply result in increased time and resourcing being required to address such challenges.

12. Treasury Management

As at 31 March 2021, the Fund had cash balances of £102 million (Pension Fund and Operations). The LPFA also manages a further £50 million of cash held against Residual Liabilities.

In addition to cash directly held by the LPFA, third party investment fund managers may hold cash in various currencies as part of their mandates. The LPPI Investment Teams monitor managers' cash policies.

Treasury investment performance is monitored by the Audit and Risk Committee and reported to the Board.

13. Governance considerations

The key requirements of the LPFA is that we must prepare a draft budget statement and present this to the Mayor by 31 December 2021; the LPFA must have regard to any comments received from the Mayor by 31 January 2022; the LPFA is required to set a levy before 15 February 2022, and ideally, sign off the final MTFP to support its business planning and SPS, usually at its March Board meeting.

Glossary

Asbestosis – this is the disease developed from inhaling asbestos dust.

The LPFA is liable for residual liabilities, including industrial injuries, in accordance with The London Residuary Body *(Transfer of Compensation Functions Order)* 1991.

The Compensation Act 2006 has increased LPFA's liabilities.

The GLC took the decision to self-insure until the early 1980s. Personal injury insurance was affected from April 1982 until abolition, but carried very large excesses (typically

£100K). In recent years, a steady stream of claims has been received from former employees who have contracted asbestos related illnesses, pleural plaques (not necessarily life threatening) and mesothelioma (which is terminal), during their employment. Asbestos related diseases do not manifest themselves until between 10 and 30 years after contamination (and as such are not bound by the three-year time barring ruling for non-latent personal injuries).

The LPFA's liability on injury claims was increased by the Compensation Act 2006, which reversed an earlier decision (Barker v Corus Plc) that allowed the LPFA to pay a portion of the compensation awarded on the basis of length of time the claimant was employed by the LPFA related bodies. It is therefore no longer for the claimant to prove the proportion of damages for which the defendant is liable. Instead, it is for LPFA to prove that another defendant is jointly responsible for asbestosis exposure and, to what extent.

Financial year – period for which the budget is set, and accounts prepared – the LPFA financial year is 1 April to 31 March.

Forecast of outturn – this is the estimate of the expenditure for the financial year taken at a point part way through the year. The forecast of outturn will take known expenditure, that was actually spent and committed (purchase orders) and add to this expected expenditure for the remainder of the financial year. This then allows comparison to the budget.

GLA – Greater London Authority – strategic London authority set up in 2000. The Mayor's Office is part of the GLA.

GLC – Greater London Council – former London government body abolished in the 1980s.

ILEA – Inner London Education Authority – former London body abolished in the 1980s. LGPS – Local Government Pensions Scheme. The scheme administered by the LPFA.

LPP – Local Pensions Partnership Ltd– a private entity of which LPFA is a joint shareholder with Lancashire County LPFA. They provide pension services to LPFA.

LRB – London Residual Body – former London body set up on abolition of the GLC and ILEA to manage function not allocated to other parts of London government, mainly London boroughs.

Mayor of London – elected representative in London, elected every four years from 2000. The current Mayoral term ends in May 2025. The Mayor appoints the LPFA Board and is a consultee on the LPFA budget and strategic plan.

Reserves – funding received but not yet used is held in reserves, which are either earmarked and held in a specific reserve or are held in the general reserve. The amounts held in reserves are to meet future demands which may be planned, expected or unknown.

Valuation – this is undertaken every three years on all LGPS funds. The next valuation is due at 31 March 2022. The valuation considers the liability of the pension fund, provides a current funding position and establishes employer pension contribution rates for the coming three years.

Appendix 1

Net asset statement

	Forecast 2021-22 £m	Budget 2021-22 £m	Budget 2022-23 £m	Budget 2023-24 £m	Budget 2024-25 £m
Opening value of net assets	**6911.8**	**6829.5**	**7633.2**	**8014.8**	**8415.4**
Dealings with Members					
Primary and secondary	146.0	140.4	145.4	150.9	156.2
Transfers in	10.8	–	–	–	–
Transfers out	**(14.1)**				
Pensions payable	(276.1)	(278.1)	(283.6)	(291.4)	(299.4)
Net (withdrawals) from dealings with Members	(133.4)	(137.8)	(138.2)	(140.5)	(143.2)
Management expenses					
LPP SLA pension administration fees	**(2.2)**	**(2.2)**	**(2.2)**	**(2.2)**	**(2.2)**
LPP SLA employer risk fees	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Oversight & Governance	**(4.5)**	**(4.6)**	**(4.6)**	**(4.7)**	**(4.9)**
Net expenditure investments	**(140.3)**	**(144.8)**	**(145.2)**	**(147.6)**	**(150.5)**
Sub-total value of assets	**6771.5**	**6684.7**	**7488.1**	**7867.2**	**8264.90**
Investment income	125.8	153.4	132.1	138.7	145.7
Fund performance	834.8	431.9	498.4	518.5	540.0
Pooled charges	(95.3)	(95.3)	(100.1)	(105.1)	(110.3)
LPP SLA Non-Pooled Fees	(0.7)	(0.7)	(0.7)	(0.8)	(0.8)
Other non-pooled fees	(2.9)	(2.9)	(3.0)	(3.1)	(3.3)
Total investment SLA Fees	**861.7**	**486.3**	**526.7**	**548.2**	**571.3**
Net additions from managing the Pension Fund	**721.4**	**341.5**	**381.6**	**400.6**	**420.8**
Estimated closing net assets	**7,633.2**	**7,171.0**	**8,014.8**	**8,415.4**	**8,836.2**