P E N S I O N S   B O A R D

Thursday 22 September 2022
at 10.00 am

The live stream can be viewed here:

Main - https://youtu.be/3iQayv2rEQE

Backup - https://youtu.be/3qkqIJYSRXY

Members of the Committee:

Samantha Lloyd (Chair)
Michael Hartney
Hugo Sparks

Mark Carroll
Chief Executive
13 September 2020
www.hackney.gov.uk

Contact: Peter Gray
Governance Officer
governance@hackney.gov.uk

Pensions Board
Thursday 22 September 2022
Agenda

That the press and public be excluded from the remainder of the meeting as the items below contain exempt information, as defined under schedule 12A of the Local Government Act 1972.

Public Attendance

Following the lifting of all Covid-19 restrictions by the Government and the Council updating its assessment of access to its buildings, the Town Hall is now open to the public and members of the public may attend meetings of the Council.

We recognise, however, that you may find it more convenient to observe the meeting via the live-stream facility, the link for which appears on the agenda front sheet.

We would ask that if you have either tested positive for Covid-19 or have any symptoms that you do not attend the meeting, but rather use the livestream facility. If this applies and you are attending the meeting to ask a question, make a deputation or present a petition then you may contact the Officer named at the beginning of the Agenda and they will be able to make arrangements for the Chair of the meeting to ask the question, make the deputation or present the petition on your behalf.

The Council will continue to ensure that access to our meetings is in line with any Covid-19 restrictions that may be in force from time to time and also in line with public health advice. The latest general advice can be found here - https://hackney.gov.uk/coronavirus-support

Rights of Press and Public to Report on Meetings

The Openness of Local Government Bodies Regulations 2014 give the public the right to film, record audio, take photographs, and use social media and the internet at meetings to report on any meetings that are open to the public.

By attending a public meeting of the Council, Executive, any committee or sub-committee, any Panel or Commission, or any Board you are agreeing to these guidelines as a whole and in particular the stipulations listed below:

- Anyone planning to record meetings of the Council and its public meetings through any audio, visual or written methods they find appropriate can do so providing they do not disturb the conduct of the meeting;
- You are welcome to attend a public meeting to report proceedings, either in 'real time' or after conclusion of the meeting, on a blog, social networking site, news forum or other online media;
- You may use a laptop, tablet device, smartphone or portable camera to record a written or audio transcript of proceedings during the meeting;
- Facilities within the Town Hall and Council Chamber are limited and recording equipment must be of a reasonable size and nature to be easily accommodated.

- You are asked to contact the Officer whose name appears at the beginning of this Agenda if you have any large or complex recording equipment to see whether this can be accommodated within the existing facilities;
- You must not interrupt proceedings and digital equipment must be set to ‘silent’ mode;
- You should focus any recording equipment on Councillors, officers and the public who are directly involved in the conduct of the meeting. The Chair of the meeting will ask any members of the public present if they have objections to being visually recorded. Those visually recording a meeting are asked to respect the wishes of those who do not wish to be filmed or photographed. Failure to respect the wishes of those who do not want to be filmed and photographed may result in the Chair instructing you to cease reporting or recording and you may potentially be excluded from the meeting if you fail to comply;
- Any person whose behaviour threatens to disrupt orderly conduct will be asked to leave;
- Be aware that libellous comments against the council, individual Councillors or officers could result in legal action being taken against you;
- The recorded images must not be edited in a way in which there is a clear aim to distort the truth or misrepresent those taking part in the proceedings;
- Personal attacks of any kind or offensive comments that target or disparage any ethnic, racial, age, religion, gender, sexual orientation or disability status could also result in legal action being taken against you.

Failure to comply with the above requirements may result in the support and assistance of the Council in the recording of proceedings being withdrawn. The Council regards violation of any of the points above as a risk to the orderly conduct of a meeting. The Council therefore reserves the right to exclude any person from the current meeting and refuse entry to any further council meetings, where a breach of these requirements occurs. The Chair of the meeting will ensure that the meeting runs in an effective manner and has the power to ensure that the meeting is not disturbed through the use of flash photography, intrusive camera equipment or the person recording the meeting moving around the room.

Advice to Members on Declaring Interests

If you require advice on declarations of interests, this can be obtained from:

- The Monitoring Officer;
- The Deputy Monitoring Officer; or
- The legal adviser to the meeting.

It is recommended that any advice be sought in advance of, rather than at, the meeting.

Disclosable Pecuniary Interests (DPIs)

You will have a Disclosable Pecuniary Interest (*DPI) if it:

- Relates to your employment, sponsorship, contracts as well as wider financial interests and assets including land, property, licenses and corporate tenancies.
- Relates to an interest which you have registered in that part of the Register of Interests form relating to DPIs as being an interest of you, your spouse or civil partner, or anyone living with you as if they were your spouse or civil partner.
- Relates to an interest which should be registered in that part of the Register of Interests form relating to DPIs, but you have not yet done so.

If you are present at any meeting of the Council and you have a DPI relating to any business that will be considered at the meeting, you **must**:

- Not seek to improperly influence decision-making on that matter;
- Make a verbal declaration of the existence and nature of the DPI at or before the consideration of the item of business or as soon as the interest becomes apparent; and
- Leave the room whilst the matter is under consideration

You **must not:**

- Participate in any discussion of the business at the meeting, or if you become aware of your Disclosable Pecuniary Interest during the meeting, participate further in any discussion of the business; or
- Participate in any vote or further vote taken on the matter at the meeting.

If you have obtained a dispensation from the Monitoring Officer or Standards Committee prior to the matter being considered, then you should make a verbal declaration of the existence and nature of the DPI and that you have obtained a dispensation. The dispensation granted will explain the extent to which you are able to participate.

Other Registrable Interests

You will have an ‘Other Registrable Interest’ (ORI) in a matter if it

- Relates to appointments made by the authority to any outside bodies, membership of: charities, trade unions,, lobbying or campaign groups, voluntary organisations in the borough or governorships at any educational institution within the borough.
- Relates to an interest which you have registered in that part of the Register of Interests form relating to ORIs as being an interest of you, your spouse or civil partner, or anyone living with you as if they were your spouse or civil partner; or
- Relates to an interest which should be registered in that part of the Register of Interests form relating to ORIs, but you have not yet done so.

Where a matter arises at any meeting of the Council which affects a body or organisation you have named in that part of the Register of Interests Form relating to ORIs, **you must** make a verbal declaration of the existence and nature of the DPI at or before the consideration of the item of business or as soon as the interest becomes apparent. **You may** speak on the matter only if members of the public are also allowed to speak at the meeting but otherwise must not take part in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation.

Disclosure of Other Interests

Where a matter arises at any meeting of the Council which **directly relates** to your financial interest or well-being or a financial interest or well-being of a relative or close associate, you **must** disclose the interest. **You may** speak on the matter only if members of the public are also allowed to speak at the meeting. Otherwise you must not take part in any discussion or vote on the matter and must not remain in the room unless you have been granted a dispensation.

Where a matter arises at <u>any</u> meeting of the Council which **affects** your financial interest or well-being, or a financial interest of well-being of a relative or close associate to a greater extent than it affects the financial interest or wellbeing of the majority of inhabitants of the ward affected by the decision <u>and</u> a reasonable member of the public knowing all the facts would believe that it would affect your view of the wider public interest, you **must** declare the interest. You **may** only speak on the matter if members of the public are able to speak. Otherwise you must not take part in any discussion or voting on the matter and must not remain in the room unless you have been granted a dispensation.

In all cases, where the Monitoring Officer has agreed that the interest in question is a **sensitive interest**, you do not have to disclose the nature of the interest itself.

MINUTES OF A MEETING OF THE PENSIONS BOARD

WEDNESDAY 16 MARCH 2022

Present:	**Samantha Lloyd (Chair)** **Michael Hartney** **Hugo Sparks**
Officers in Attendance:	**Rachel Cowburn, Head of Pension Fund Investment** **Peter Gray, Governance Officer** **Jackie Moylan, Director of Financial Management**
Also in Attendance:	**Catherine Pearce, Aon** **Jason Wilson, Aon**

1 **Apologies for absence**

1.1 There were no apologies for absence.

2 **Declarations of Interest - Members to declare as appropriate**

1.2 There were no declarations of interest.

3 **Minutes of the previous meeting**

3.1 The minutes of the previous meeting were agreed subject to the following amendments.

- That the correct live stream link be attached;
- 4.2 amended to read:
  'Catherine Pearce confirmed that the majority of the structures referred to were already embedded in many Local Authorities Funds but there were concerns that not all funds were meeting best practice requirements.
- Para 4.3: Amend to make reference to '7' sections';
- 5.1: Change date to 2021/22;
- 7: Amend to; Major Projects Update;
- Amend the finishing time of the meeting.

4 **Risk Policy & Risk Register**

4.1 The Head of Pension Fund Investment introduced the updated Pension Fund Risk Policy, which detailed the risk management strategy for the Fund, including:

- The risk philosophy for the management of the Fund, and in particular:

attitudes to, and appetite for how risk management is implemented;

- Risk management responsibilities;
- The procedures that are adopted in the Fund's risk management process;
- The key internal controls operated by the Administering Authority and other parties responsible for the management of the Fund.

4.2 The Policy was last updated in December 2018; this updated version was presented for noting by the Board in line with the Policy's regular triennial review process.

4.3 The report also presented the Quarter 3 2021/22 risk register update for the Board's review. The register summarised potential significant risks to which the Fund is exposed.

4.4 The Head of Pension Fund Investment reported that key changes were to take account of the Chartered Institute of Public Finance guidance. Because of a restructure in the section, there had been changes to some job titles and responsibilities. Challenges in regard to the Risk Register centred on presentation with a planned shift to a dashboard presentation each quarter, submitting the full risk register on an annual basis.

4.5 The Head of Pension Fund Investment highlighted the risks rated as red:

- Governance risk around potential data loss. A cyber specific security policy was in place but it was recognised that a number of actions still needed to be put in place;
- The ongoing risk of poor membership data. It was hoped that that risk would reduce to amber over the coming months. The Actuary was largely content with data quality;
- Regulatory changes such as the exit cap and the impact of the McCloud remedy given the high level of associated uncertainty;

4.6 Michael Hartney asked for clarification on the achievability of the target date of

September 2020 for the reduction of red risks on governance.

4.7 The Head of Pension Fund Investment confirmed that the key risk to address related to the use of external systems. A plan was being put in place on the key recommendations of the cyber security policy and it was hoped to complete the plan by September 2022. It was hoped to make much progress on knowledge and skills and changes were planned in relation to recruitment and retention. Data protection changes would be wrapped into the external systems changes. It was accepted that some of the risks would be easier to address than others and there would be a future review of the risks.

4.8 The Chair asked for clarification on why the conflict of interest risk was amber.

4.9 Catherine Pearce confirmed that the risk was amber because of the presence of new members. The Head of Pensions Fund Investment stated that the new members would complete conflicts of interest forms and would receive induction training at which time the risk could be reduced.

4.10 The Chair expressed concern that poor membership data continued to be a red risk.

4.11 The Director of Financial Management confirmed that the risk register was cautious and the administration risk was nearing amber as much progress had been made, particularly with the interface work. The risk was expected to reduce by September 2022. The Head of Pension Fund Investment confirmed that significant changes had been made with the interface and that this was ready to go live. Further, Equiniti had made some material improvements in terms of meeting KPIs following a period of uncertainty. Some concerns remained.

RESOLVED:

- To note the report

5 Pensions Administration Strategy

5.1 The Head of Pension Fund Investment introduced the updated pensions administration strategy which had been consulted on with employers, from whom no comments had been received. The strategy set out how the Funds team interacts with the employers together with the responsibilities of scheme employers. There had been little change to the strategy but the wording had been amended around the relationship between schools and their payroll providers to assist schools in monitoring their payroll providers. Amendments had been made to reflect the employer self-service system. Some amendments were made with regard to McCloud with an update around the Pensions Regulator's role. A further change related to how performance objectives are measured. It was noted that the strategy had been approved by the Pensions Committee.

5.2 Michael Hartney asked if the level of charges engendered the required behaviour from employers in relation to payments and whether the fees should be based on the size of the employer.

5.3 The Head of Pension Fund Investment confirmed that it was difficult to set the level of charges and there were different sizes of employer with small employers to whom the charges are likely to be material. Work was being carried out on situations where the employers were not providing the required information, recognising the cost to the administration team. To recognise the disparity, significant costs had been incurred. Catherine Pearce confirmed that it was necessary to recover the funds that had been lost.

5.4 The Chair stressed the need for early warning systems to signal when issues around payment arise.

5.5 The Head of Pension Fund Investment stressed that punitive costs could not be imposed and employers cannot be treated differently even though the costs are a bigger deterrent to smaller employers. A liaison officer within the team monitored payments from employers and flagged up incidents of late payments.

RESOLVED:

- To note the report

6. Conflict in Ukraine - Pension Fund Impact

6.1 The Head of Pension Fund Investments introduced the report. An exercise had been carried out to show where there had been any direct exposure to Russia. Small holdings within the equity portfolios had been identified with no significant impact on the fund at .05 percent. Guidance had been issued on this matter from the Pensions Regulator and from the LPBS Advisory Board which had been followed. Law Commission guidance had also been followed on disinvestment. The long term recovery was uncertain and there was no real case for engagement in this situation. This disinvestment would take place as soon as it was practical to do so.

6.2 Hugo Sparks asked for clarification on the impact of inflation on the Pensions Fund.

6.3 The Head of Pension Fund Investment confirmed that inflation did have an impact on the Fund. However, the Fund continued to have significant equity holdings which would be a good defence against an inflationary environment. There had been a change in cash flows with consideration now being given to income generation. There would not be a shift to a more protection based strategy, maintaining exposure to growth and income. Timelines on the investment strategy to show what factors had been considered and how that informed the development of the Investment Strategy would be submitted to the next meeting of the Board.

Action: Head of Pension Fund Investment

6.4 The Chair stressed that as a board it was important that the investment strategy is considered by the Fund.

RESOLVED:

- To note the report

7. Review of the Work of the Pensions Committee

7.1 The Chair introduced the report on the work of the Pensions Committee.

7.2 Michael Hartney asked whether complaints had been received from members who had been negatively impacted by the GMP rectification. The Head of Pension Fund Investment agreed to seek clarification on this matter.

Action: Head of Pension Fund Investment

RESOLVED:

- To note the report

8. Exclusion of Press and Public

RESOLVED:

THAT the press and public be excluded from the proceedings of the Audit Committee during consideration of exempt Item 8 on the agenda on the grounds that it is likely, in view of the nature of the business to be transacted, that were members of the public to be present, there would be a disclosure of exempt business as defined in Part 1 of schedule 12A of the Local Government Act 1972, as amended.

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Hackney

Title of Report	Actuarial Valuation - Initial Whole Fund results & Draft FSS
For Consideration By	Pensions Board
Meeting Date	22/09/2022
Classification	Open (Exempt Appendices)
Ward(s) Affected	All
Group Director	Ian Williams, Group Director Finance & Corporate Resources

1. **Introduction**

1.1. This report provides the Pensions Board with an update on the Fund's 2022 triennial actuarial valuation. It sets out the whole fund results of the valuation It sets out the initial results of the valuation and presents a draft Funding Strategy Statement prior to consultation with employers.

2. **Recommendations**

2.1. The Pensions Board is recommended to:

- Note the whole fund reported funding position and the assumptions on which it is based.
- Note the draft Funding Strategy Statement

3. **Related Decisions**

3.1. Delegated Powers Report March 2020 - Final Valuation Report and Funding Strategy Statement

3.2. Pensions Committee 16 June 2022 - Actuarial Valuation - Contribution Rate Modelling (Hackney Council)

4. Comments of the Group Director of Finance and Corporate Resources.

4.1. The triennial valuation outcome is sensitive to both the actuarial and financial assumptions made within the valuation, and the membership data used; significant variations to either the assumptions or the data used could impact the stated funding position or the outcome of the contribution rate modelling, which helps determine the contribution rates payable by the Fund's employers. Given the Council's position as a Fund employer, the inputs to the triennial valuation can therefore impact the level of resources available for other Council services.

4.2. It is therefore critical that both the Pensions Committee and Pension Board have a sound understanding of the valuation process and the assumptions used in making decisions with regards to the valuation.

5. Comments of the Director of Legal, Democratic and Electoral Services

5.1. The role of the Pension Board is prescribed by Section 106 of the Local Government Pension Scheme Regulations 2013 and includes the following:

- Securing compliance with the Local Government Pension Scheme Regulations 2013 and any other legislation relating to the governance and administration of the Scheme and any connected scheme
- Securing compliance with any requirements imposed by the Pensions Regulator in relation to the Scheme and any connected scheme
- Ensuring the effective and efficient governance and administration of the Scheme and any connected scheme

5.2. Regulation 62 of the Local Government Pension Scheme (LGPS) Regulations 2013 prescribes that each administering authority must obtain: an actuarial valuation of the assets and liabilities of each of its pension funds as at 31st March 2016 and on 31st March in every third year afterwards; a report by an actuary in respect of the valuation; and a rates and adjustments certificate prepared by an actuary.

5.3. Taking into account the role of the Pensions Board in securing compliance with the Local Government Pension Scheme Regulations 2013 and statutory guidance, the consideration of the triennial valuation would appear to properly fall within the Board's remit.

6. Background to the report

6.1. Under the LGPS Regulations 2013, the Pension Fund is required to undertake a formal actuarial valuation every 3 years to establish its funding position and to set the contribution rate for the following three years. The last formal actuarial valuation of the London Borough of Hackney Pension Fund was carried out as at 31st March 2019; this showed an improvement in the funding level from 77% to 92% and set the contribution rates for the three years commencing 1st April 2020.

6.2. The Fund's actuary, Hymans Robertson, has been reviewing the data supplied to them by the Fund's administrator (Equiniti) and has now been able to provide an initial assessment of the whole fund funding level. This is set out in the Initial Results Report at Appendix 1 and discussed in more detail in Section 7 of this report.

6.3. A draft Funding Strategy Statement is attached at Appendix 2. The Fund is required to produce a Funding Strategy Statement under the LGPS Regulations 2013 and must revise it whenever it changes its policy on funding (i.e. at each valuation). The statement sets out how employer liabilities are measured, the pace at which these liabilities are funded, and how employers pay for their liabilities. This statement also sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

6.4. The valuation is currently running to timetable, with the Council's contribution rate agreed by the Committee in June 2022, and data submitted by Equiniti in July. The Committee has agreed a Council contribution rate of 27% of payroll for each of the 3 years covered by the 2022 valuation cycle (2023/24, 2024/25, 2025/26), noting that the planning assumption for Medium Term Financial Planning (MTFP) purposes will be 28% pending the finalisation of the revaluation process.

6.5. Some data issues were identified by the Fund Actuary on reviewing the data - these have been discussed with Equiniti and additional work has been carried out by the Fund Actuary. This has not impacted on overall timescales but has resulted in a cost increase to the Fund of <£2k.

6.6. Overall we have been pleased to note the improved quality of data provided by Equiniti; this is reflected in Fund's adherence to its valuation timetable, which has not been the case in previous years.

7. **Whole Fund Funding Level**

7.1. The Fund Actuary, Hymans Robertson, has now made an initial assessment of the whole fund funding level for the Hackney Pension Fund. This is set out in the Initial Results Report at Appendix 1. This report:

- presents the current funding position of the Fund using a range of actuarial assumptions;

- explains why the funding position has changed since the previous actuarial valuation was carried out in 2016; and
- shows the sensitivity of the funding position to actuarial assumptions made about the future (e.g. assumptions around investment returns and inflation).

7.2. The initial results show that the funding position has improved from the last valuation. The required investment return to be 100% funded is now 4.1% pa (4.3% pa at 2019). The likelihood of the Fund's investment strategy achieving the required return is now 74% (65% at 2019).

7.3. The most significant contributor to the increase in funding level is stronger than expected investment returns. These have more than offset the increase in short to medium-term inflation expectations.

7.4. Current inflation is significantly above the Bank of England target (2% pa) and recent norms. It is likely this will mean a high 2023 pension increase (based on September 2022 CPI inflation). Current expectations are that inflation pressures will be short-term and move back to normal in the longer-term. The inflation assumption the Fund Actuary has used reflects this pattern and allows for the short-term spike - further information can be found on page 25 of Appendix 1.

7.5. The Fund Actuary has presented the funding position across a range of different investment returns to help illustrate its sensitivity. However, the Actuary is still required to also report a single funding position as at 31 March 2022. To report a single funding level and funding surplus/deficit for the 2022 valuation, a discount rate of 4.3% pa has been used. There is a 72% likelihood of success associated with a future investment return of 4.3% pa.

7.6. The following table sets out the single funding position on the basis of the assumptions above, and compares this to the reported position for the 2019 validation, which also used a 72% likelihood of success. There are limitations to this approach:

- The liabilities are calculated using a single set of assumptions about the future, so are very sensitive to the choice of assumptions.

- The market value of assets changes daily.

Valuation Date	31 March 2022	31 March 2019
Past Service Liabilities	**(£m)**	**(£m)**
Employees	530	432
Deferred Pensioners	473	503
Pensioners	858	771
Total Liabilities	**1,861**	**1,706**
Assets	**1,965**	**1,575**
Surplus/(Deficit)	**104**	**(131)**
Funding Level	**106%**	**92%**

7.7. The most significant external event since the last valuation was the Covid-19 pandemic. The experience analysis shows that sadly, there were a higher than expected number of deaths. However, the impact on the funding position has been small, likely due to the age profile of the excess deaths and the level of pension.

8. Funding Strategy Statement

8.1. The Funding Strategy Statement (FSS) is a legal requirement under Regulation 58 of the LGPS Regulations 2013, which states that 'an administering authority must, after consultation with such persons as it considers appropriate, prepare, maintain and publish a written statement setting out its funding strategy.' The statement must be updated each time the Fund changes its policy on funding (i.e. after each valuation).

8.2. The statement sets out how employer liabilities are measured, the pace at which these liabilities are funded, and how employers pay for their liabilities. It also sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

8.3. For 2022, the Fund Actuary has proposed that the FSS be streamlined, after successive changes to the LGPS regulations have led to policies being 'bolted on' to the statement to help ensure compliance. A 'core' FSS is therefore proposed, containing the core information required by the regulations, with a number of short 'satellite' policies to pick up certain discretionary areas of funding strategy. These might include policies such as cessations, pre-payments and pass-through. Further information on these changes can be found in the briefing note at Appendix 3.

8.4. A draft of the core FSS is attached at Appendix 2 to this report. The Pensions Committee will be asked to review and approve this draft statement for consultation; the statement will then be provided to employers for feedback prior to final approval in March 2020.

8.5. It should be noted that a number of sections are highlighted in yellow. These will be completed by fund officers as appropriate before final publishing, with the exception of Table 2 (Section 2.2), which sets out the parameters used to calculate employer contribution rates. The Fund Actuary will review this during the employer results part of the valuation process and revise as necessary

Appendices

Appendix 1 - Actuarial Valuation - initial Results (Exempt)
Appendix 2 - Draft Funding Strategy Statement (Exempt)
Appendix 3 - FSS Briefing Note

Exempt

By Virtue of Paragraph 3 Part 1 of schedule 12A of the Local Government Act 1972 this report and/or appendix is exempt because it contains Information relating to the financial or business affairs of any particular person (including the authority holding the information) and it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

Background documents

None

Report Author	Name Rachel Cowburn Title Head of Pensions Email rachel.cowburn@hackney.gov.uk Tel 020 8356 2630
Comments for the Group Director of Finance and Corporate Resources prepared by	Name Title Email Tel

Comments for the Director of Legal, Democratic and Electoral Services prepared by	Name Title Email Tel

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Hackney

Title of Report	Pension Fund Statement of Accounts
For Consideration By	Pensions Board
Meeting Date	22nd September 2022
Classification	Open
Ward(s) Affected	All
Group Director	Ian Williams, Group Director Finance & Corporate Resources

1. Introduction

1.1. This report introduces the draft Statement of Accounts of the London Borough of Hackney Pension Fund for the year ended 31st March 2022, which are attached.

2. **Recommendations**

2.1. **The Pensions Board is recommended to:**

- Note the report

3. **Related Decisions**

3.1. None

4. **Comments of the Group Director of Finance and Corporate Resources.**

4.1. The Pension Fund Statement of Accounts sets out the financial position of the Pension Fund as at 31st March 2022 and acts as the basis for understanding the financial wellbeing of the Pension Fund. It enables Members to manage and monitor the Scheme effectively, helping to ensure that they are able to fully understand the financial implications of the decisions they make.

5. **Comments of the Director of Legal, Democratic and Electoral Services**

5.1. The role of the Pension Board is prescribed by Section 106 of the Local

Government Pension Scheme Regulations 2013 and includes the following:

- Securing compliance with the Local Government Pension Scheme Regulations 2013 and any other legislation relating to the governance and administration of the Scheme and any connected scheme

- Securing compliance with any requirements imposed by the Pensions Regulator in relation to the Scheme and any connected scheme

- Ensuring the effective and efficient governance and administration of the Scheme and any connected scheme

5.2. Taking into account the role of the Pensions Board in ensuring the effective and efficient governance and administration of the Scheme, the consideration of the Fund's statement of accounts would appear to properly fall within the Board's remit

6. **Background to the Report**

6.1. The Accounts and Audit Regulations 2015 require local authorities to produce unaudited accounts by 31st May following the year end For LGPS administering authorities, the unaudited accounts must include a copy of the Pension Fund Statement of Accounts. For 2020/21 and 2021/22 the Accounts and Audit Regulations (Amendment) Regulations 2021 pushed this deadline back to 31st July.

6.2. Hackney Council's draft 2021/22 accounts (including the Pension Fund Statement of Accounts) were published by the deadline of 31st July. Audit of the accounts has not yet commenced and a timetable for the audit is not yet available.

6.3. The LGPS Regulations 2013 require the Fund to publish its audited Annual Report and Accounts by 1st December following the year end. Given the delay to audit timetables, this is unlikely to be possible for 2021/22. The Fund will shortly be publishing a draft version of the Annual Report and request provisional approval from the Pensions Committee until such a time as the fully audited version is available.

6.4. A copy of the Statement of Accounts is attached at Appendix 1 to this Report for the Board's information.

Appendices

Appendix 1 - Statement of Accounts

Background documents

None

Report Author	Name: Rachel Cowburn Title: Head of Pensions Email: rachel.cowburn@hackney.gov.uk Tel: 020 8356 2630
Comments for the Group Director of Finance and Corporate Resources prepared by	Name: Jackie Moylan Title: Director, Financial Management Email: jackie.moylan@hackney.gov.uk Tel: 020 8356 3032
Comments for the Director of Legal, Democratic and Electoral Services prepared by	Name: Georgia Lazari Title: Team Leader (Places) Email : georgia.lazari@hackney.gov.uk Tel: 0208 356 1369

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REVIEW NOTES

CURRENT

21-22 Link to Mgmt Copy - Main Working Paper (DRAFT) - Pre-Audit

HISTORY

21-22 Link to Main Working Paper (DRAFT) - Pre-Audit

Statement of Accounts 2021/22

Fund Account

2020/21 £'000		Notes	2021/22 £'000
	Dealings with members, employers and others directly involved in the Scheme		
(76,326)	Contributions	7	(76,104)
(4,625)	Transfers in from other pension funds	8	(5,026)
(80,951)			(81,130)
63,528	Benefits	9	62,658
6,394	Payments to and on account of leavers	10	8,414
69,922			71,072
(11,029)	**Net (additions)/withdrawals from dealings with members**		**(10,058)**
12,003	**Management Expenses**	11	**15,174**
	Returns on investments		
(20,119)	Investment income	12	(19,252)
(351,463)	(Profit) and losses on disposal of investments and changes in the market value of investments	13c	(86,404)
(20)	Taxes on Income		4
(371,602)	**Net returns on investments**		**(105,652)**
(370,628)	**Net (increase)/decrease in the Fund during the year**		**(100,536)**
1,493,348	**Opening net assets of the Scheme**		**1,863,976**
1,863,976	**Closing net assets of the Scheme**		**1,964,512**

Net Assets Statement

2020/21 £'000		Notes	2021/22 £'000
1,833,627	Investment Assets	13a	1,933,215
150	Long-Term Investment	13a	150
10,606	Cash Deposits	13a	4,880
1,844,383			**1,938,245**
(133)	Investment Liabilities	13a	**(332)**
1,844,250	**Net Value of Investment Assets**	13a	**1,937,913**
158	Long-term debtors	20a	226
22,741	Current Assets	20	30,170
(3,173)	Current Liabilities	21	(3,797)
19,726			**26,599**
1,863,976	**Net Assets of the Fund available to fund benefits at the period end**		**1,964,512**

Note: the fund’s financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at Note 19.

NOTES TO THE ACCOUNTS

1. DESCRIPTION OF THE FUND

The Hackney Pension Fund ('the Fund') is part of the Local Government Pension Scheme and is administered by the London Borough of Hackney.

The following description of the Fund is a summary only. For more detail, reference should be made to the Hackney Pension Fund Annual Report 2021/22, the Pension Fund website https://hackneypension.co.uk and the underlying statutory powers underpinning the Scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

a) General

The Fund is governed by the Public Service Pensions Act 2013. The Fund is administered with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended).
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended).
- The Local Government Pension Scheme (Management and Investment of Funds) Regulation 2016.

It is a contributory defined benefit pension scheme administered by the London Borough of Hackney ("the Council") to provide pensions and other benefits for pensionable employees of the London Borough of Hackney and for the employees of admitted and scheduled bodies eligible to participate in the Fund. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The London Borough of Hackney has delegated responsibility for the management of the Pension Fund to the Pensions Committee with the Group Director of Finance and Corporate Resources being given delegated authority for the day to day operations of the Fund.

b) Membership

All local government employees (except casual employees, teachers and those eligible to be members of the NHS Pension Scheme) are automatically entered into the Scheme. However membership of the LGPS is voluntary and employees are free to choose whether to opt out, remain in the Scheme or make their own personal arrangements outside the Scheme.

Organisations participating in the Hackney Pension Fund include:

- Scheduled bodies, which include the local authority and similar aligned bodies whose staff are automatically entitled to be members of the Fund. It also includes Academy and Free School non-teaching staff.

- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

As at 31st March 2022 there are 39 active employer organisations within the Fund, including the London Borough of Hackney.

London Borough of Hackney Pension Fund	31 March 2022	31 March 2021
Number of Employers with active members	39	41
Number of Employees in scheme		
Council	6,682	6,502
Scheduled bodies	537	524
Admitted bodies	53	57
Total	**7,272**	**7,083**
Number of pensioners		
Council	7,125	6,870
Scheduled bodies	53	56
Admitted bodies	11	23
Ceased Employers	608	553
Total	**7,797**	**7,502**
Deferred members		
Council	8,868	8,581
Scheduled bodies	844	767
Admitted bodies	30	72
Ceased Employers	991	932
Total	**10,733**	**10,352**
Grand Total	**25,802**	**24,937**

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2022.

Employee contributions are matched by employers' contributions which are set based on the triennial actuarial funding valuations. The last such valuation was at 31 March 2019 with the next valuation due to take place at 31 March 2022. Current employer contribution rates can be found in the Rates and Adjustments Certificate in the Hackney Pension Fund Annual Report and Accounts 2021/22 or within the Actuarial valuation on the Pension Fund Website:- https://hackneypension.co.uk

Prior to 1 April 2014, pension benefits under LGPS were based on final pensionable pay and length of service.

April 2014, saw the implementation of LGPS 2014, a new Career Average Revalued Earnings (CARE) Scheme, based on a 1/49th accrual rate with retirement ages now linked to an individual member's state pension age. On average, contribution rates for employees have remained at 6.5%, however the contribution bands have widened and are now 5.5% to 12.5% at the top end. The new Scheme has also introduced the option for flexibility over contributions, i.e. a lower contribution for lower benefits, referred to as the 50/50 Scheme. It has not been possible to quantify the impact of these changes, although they have been designed to bring the future service costs of the Scheme down.

Details of the schemes are summarised below:

	Service pre 1 April 2008	Service post 31 March 2008	Service post 31 March 2014
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.	Each year worked is worth 1/49 Career Average Revalued Earnings Salary
Lump Sum	Automatic lump sum of 3 x pensionable salary.	No automatic lump sum.	No automatic lump sum.
	In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

There are a range of other benefits provided under the Scheme including early retirement, disability pensions and death benefits. For more details please refer to the scheme guides which can be found at https://hackneypension.co.uk/.

Benefits are index-linked in order to keep pace with inflation. In June 2010, the government announced that the method of indexation would change from the Retail Prices Index to the Consumer Prices Index. This change took effect from 1 April 2011.

2. BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2021/22 financial year and its position at year-end as at 31 March 2022. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code),* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector. The accounts have been prepared on a going concern basis.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS 19) basis, is disclosed in Note 19 of these accounts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – Revenue recognition

a) Contributions income

Normal contributions, both from members and employers, are accounted for on an accruals basis. Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes that rise according to pensionable pay. Employer contributions are set at the percentage rate recommended by the Fund Actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the Fund actuary or on receipt if earlier than the due date.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see Notes 8 and 10).

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 8).

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment income

i) Interest income

Interest income is recognised in the Fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting year is disclosed in the Net Assets Statement as a current financial asset.

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting year is disclosed in the Net Assets Statement as a current financial asset.

iv) Movement in the net market value of investments

- Changes in the net market value of investments are recognised as unrealised profits/losses during the year.
- Realised profit/losses are recognised upon the sale of investments during the year.

Fund Account – Expense items

d) Benefits payable

Pensions and lump-sum benefits payable include those known to be due at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

e) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrevocable tax is accounted for as a fund expense as it arises. All income and expenditure in the Statement of Accounts is net of VAT, where recoverable.

f) Management expenses

The Fund discloses its pension fund management expenses in accordance with the CIPFA guidance: *Accounting for Local Government Pension Scheme Management Expenses (2016).*

i) Administrative expenses

All administrative expenses are accounted for on an accruals basis. Relevant staff costs and associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

ii) *Oversight and governance costs*

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged directly to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund. The cost of obtaining investment advice from external consultants is included in oversight and governance charges.

iii) *Investment management expenses*

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or decrease as the value of these investments change.

Where an investment manager's invoice has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2021/22, there were no fees based on such estimates (2020/21 no fees estimated).

A similar procedure is used for custodian fees, and in 2021/22 there were no fees estimated (2020/21: no fees estimated).

The Fund requests that non-invoiced investment management fees (plus other associated costs such as transaction costs) are disclosed via the Cost Transparency Initiative template. Where cost information is not readily available for the year ending 31st March 2022 (e.g. for pooled funds using different accounting dates), an estimate will be made using the most recent information available.

Net Assets Statement

g) Financial assets

Financial assets are included in the Net Assets Statement on a fair value basis (with the exception of cash and debtors, which has been measured on an amortised cost basis), as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised in the Fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

The Fund has contributed £150k of Regulatory Capital to the London Collective Investment Vehicle (LCIV), required from each member of the pool. The investment is carried at cost as:

- the shares held in the LCIV do not constitute a joint venture or group arrangements due to lack of control
- the investment is not repayable on demand and does not meet FVOCI requirements and
- These shares are being held as a long-term investment with currently no intention to trade
- the fund is of the view that fair value at 31st March 2022 cannot reliably be measured.

h) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

i) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

Derivative contract assets are measured at fair value through bid prices and liabilities at fair value through offer prices. Changes in the fair value of derivative contracts are included in any change in the market value.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

j) Cash and cash equivalents

Cash comprises cash-in-hand and deposits payable on demand and includes amounts held by the Fund's external managers.

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash that are subject to minimal risk of changes in value.

k) Financial liabilities

The Fund recognises financial liabilities at fair value (with the exception of creditors measured on an amortised cost basis), as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in fair value of the liability are recognised by the Fund.

l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note only (Note 19).

m) Additional Voluntary Contributions (AVCs)

The Hackney Pension Fund provides an Additional Voluntary Contributions (AVC) Scheme for its members, the assets of which are invested separately from those of the pension fund. The Fund has appointed Prudential as its AVC approved provider. AVCs are paid by members to the AVC provider and are used specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 22).

n) Contingent assets and contingent liabilities

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by future events.

A contingent liability arises where an event prior to the year-end has created a possible financial obligation whose existence will only be confirmed or otherwise by future events.

Contingent liabilities can also arise when it is not possible at the Balance Sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the net asset statement but are disclosed by way of narrative in the notes (Note 25).

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

It has not been necessary to make any material critical judgements in applying the accounting policies in 2021-22.

5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

Pension Fund Liability

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on investments. The Fund Actuary, Hymans Robertson, provides expert advice about the assumptions to be applied.

The pension fund liability shown in Note 19 is calculated on an IAS19 basis, with economic assumptions updated annually. It is therefore subject to a significant risk of material adjustment in forthcoming financial years. The effect of changes to individual assumptions can be measured, as set out in the table below:

Change in assumptions at 31 March 2022	Approximate % increase to promised retirement benefits	Approximate monetary amount (£m)
0.1% p.a. decrease in 'real discount rate'	2%	52
0.1% p.a. increase in the 'salary increase rate'	0%	3
0.1% increase in the 'pension increase rate (CPI)'	2%	48
1 year increase in member life expectancy	4%	106

- To quantify the impact of a change in the financial assumptions used, the Fund actuary has calculated and compared the value of scheme liabilities as at 31 March 2022 on varying bases. The approach taken is consistent with that adopted for IAS19.
- Please note that the above figures have been derived based on the membership profile of the Employer as at the date of the most recent actuarial valuation.

Unquoted Investment Assets

The Fund's unquoted investments (such as private debt) are not regularly traded and are valued using techniques that require significant judgement in determining appropriate assumptions. The valuation of these investments therefore involves a degree of uncertainty. Additionally, the Fund relies on obtaining investor reports and financial statements from the relevant fund managers; the difficulties inherent in valuing these investments means that pricing information may not be available in a timely fashion.

Within the financial statements, these assets are held at fair value in accordance with the requirements of the Code and IFRS 13. They are classified at Level 3 i.e. assets where at least one input that could have a significant effect on the instrument's valuation is not based on observable data. More detail on the basis of valuation and key sensitivities for these assets can be found in Note 16.

6. EVENTS AFTER THE BALANCE SHEET DATE

There have been no events since 31 March 2022 and up to the date when these accounts were authorised, which require any adjustments to these accounts.

The Fund remains alert to ongoing developments in the Russian invasion of Ukraine. In determining whether post balance sheet events require the accounts to be adjusted, the Fund's management has considered whether events after 31 March 2022 provide any further information about the effect of sanctions applied prior to 31 March 2022. The Fund has determined that this is not the case and that no adjustments are required to the amounts recognised in the accounts.

7. CONTRIBUTIONS RECEIVABLE

By Category	2021/22 £'000	2020/21 £'000
Employers' Contributions split by:		
Normal Funding	(39,163)	(37,935)
Deficit Funding	(22,289)	(24,395)
Members' Contributions	(14,652)	(13,996)
Total	**(76,104)**	**(76,326)**

By Employer	2021/22 £'000	2020/21 £'000
London Borough of Hackney	(71,633)	(72,042)
Scheduled Bodies	(4,133)	(3,965)
Admitted Bodies	(338)	(319)
Total	**(76,104)**	**(76,326)**

8. TRANSFERS IN FROM OTHER PENSION FUNDS

	2021/22 £'000	2020/21 £'000
Individual Transfers	(5,026)	(4,625)
Total	**(5,026)**	**(4,625)**

9. BENEFITS PAYABLE

By Category	2021/22 £'000	2020/21 £'000
Pensions	51,261	50,708
Commutation and Lump Sum Retirement Benefits	9,220	11,785
Lump Sum Death Benefits	2,177	1,035
Total	**62,658**	**63,528**

By Employer	2021/22	2020/21
London Borough of Hackney	58,211	59,129
Scheduled Bodies	2,919	2,900
Admitted Bodies	1,528	1,499
Total	**62,658**	**63,528**

10. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

	2021/22 £'000	2020/21 £'000
Refunds to Members leaving service	160	209
Group Transfers	-	-
Individual Transfers	8,157	6,185
Employer Exit Credits	97	-
Total	**8,414**	**6,394**

11. MANAGEMENT EXPENSES

	2021/22 £'000	2020/21 £'000
Administrative Costs	785	849
Investment Management Expenses*	13,020	9,988
Oversight and Governance Costs	1,369	1,166
Total	**15,174**	**12,003**

The investment management expenses disclosed above include non-invoiced management, transaction and other costs paid/payable to the Fund's investment managers of £11,057k (£8,234k in 20/21). The disclosure of the non-invoiced costs is made to the Fund via the Cost Transparency InitiativeTemplate. The introduction of the template is helping to ensure more accurate fee disclosures by managers, with greater detail provided with regards to transaction costs. Audit Fees of £21k including an additional fee variation for 2019/20 audit (£16k in 20/21) were incurred and are included in Oversight and Governance Costs in the above table.

11.A INVESTMENT MANAGEMENT EXPENSES

2021/22 Asset Class	Management Fees £'000	Transaction Costs £'000	Custody Fees £'000	Performance Fees £'000	Total £'000
Bonds	433	51	-	-	484
Equities	-	-	-	-	-
Pooled Investments	4,556	2,856	132	-	7,544
Pooled Property Investments	2,599	584	-	20	3,203
Private Debt	1,678	4	21	-	1,703
Infrastructure	39	-	4	-	43
Cash	-	-	12	-	12
Custodian	-	-	31	-	31
Total	**9,305**	**3,495**	**200**	**20**	**13,020**

2020/21 Asset Class	Management Fees £'000	Transaction Costs £'000	Custody Fees £'000	Performance Fees £'000	Total £'000
Bonds	439	-	-	-	439
Equities	99	-	-	-	99
Pooled Investments	3,351	1,867	129	-	5,347
Pooled Property Investments	2,724	184	-	-	2,908
Private Debt	1,147	2	6	-	1,155
Cash	-	-	5	-	5
Custodian	-	-	35	-	35
Total	**7,760**	**2,053**	**175**	**-**	**9,988**

An estimate of £99k for management fees of an equities fund manager that exited the Fund was settled in 2020/21.

12. INVESTMENT INCOME

	2021/22 £'000	2020/21 £'000
Fixed Interest Securities	(3,736)	(4,179)
Equity Dividends	(6,712)	(9,065)
Index Linked Securities	(183)	(185)
Pooled Investment Income	(7,424)	(5,471)
Interest on Cash Deposits	(26)	(68)
Other Income	(1,171)	(1,151)
Total	**(19,252)**	**(20,119)**

2020/21 has been restated to reflect a reclassification of private debt income from "Other Income" to "Pooled Investment Income"

13. INVESTMENTS

The Fund's investments are held in a wide range of assets to ensure diversification, and to optimise returns whilst having regard to the management of risk. The movement in asset classes over the year is largely a reflection of the relative performance of those assets.

a. Analysis of Investments

A breakdown of investments held by the Fund's external managers across the various asset classes is below:

Investment type		Market value 31 March 2022 £'000	Market value 31 March 2021 £'000
Investment Assets:			
Fixed Interest Securities		**187,045**	**184,247**
Index Linked Securities		**50,951**	**53,706**
Equities	Long-Term Investment	**150**	**150**
Pooled Investments	Corporate Fixed Interest	109,947	106,803
	Diversified Growth Funds	140,709	171,050
	Property	187,783	155,736
	Emerging Markets Equity - Active	76,415	97,123
	Global Equity - Active	528,491	290,405
	Global & UK Equity - Passive	422,056	671,220
	Private Debt	202,600	101,263
	Infrastructure	24,900	-
		1,692,901	**1,593,600**
Derivative Contracts			
	Forward Currency	24	60
	Futures	448	135
		472	**195**
Other Investment Assets			
	Cash Deposits	4,880	10,606
	Other Investment Balances	1,846	1,879
		6,726	**12,485**
Total Investment Assets		**1,938,245**	**1,844,383**
Investment Liabilities:			
Derivative Contracts			
	Forward Currency	(151)	(0)
	Futures	(181)	(133)
		(332)	**(133)**
Other Investment Liabilities		**-**	**-**
Total Investment Liabilities		**(332)**	**(133)**
Net Investment Assets		**1,937,913**	**1,844,250**

b. Investments analysed by fund managers

As at 31 March 2022 the Fund's investments are managed by nine investment managers within the London CIV and five investment managers outside of the London CIV according to defined benchmarks which are set out in the Investment Strategy Statement (ISS). The following is a breakdown of the investments between the Investment Managers.

Fund Manager	Value £'000 2021/22	% of investment assets 2021/22	Value £'000 2020/21	% of investment assets 2020/21
Investments managed by London CIV:				
BlackRock (Global & UK Equity Index)	422,086	21.8%	671,249	36.4%
LCIV/RBC (Global Active Equity)	316,647	16.3%	290,405	15.7%
LCIV/JP Morgan (Global Emerging Markets)	76,415	3.9%	-	0.0%
LCIV/Baillie Gifford (Global Multi Asset)	140,709	7.3%	-	0.0%
LCIV/Baillie Gifford (Global Equities)	211,844	10.9%	-	0.0%
LCIV/Churchill & Pemberton (Private Debt)	73,242	3.8%	-	0.0%
LCIV/BlackRock, Quinbrook,Stonepeak & Foresight (Infrastructure)	24,900	1.3%	-	0.0%
	1,265,843	**65.3%**	**961,654**	**52.1%**
Investments managed outside of London CIV:				
BMO (Fixed Interest)	254,430	13.1%	255,782	13.9%
Threadneedle (Property)	187,783	9.7%	155,736	8.4%
GMO (Global Real Return)	-	0.0%	104,421	5.7%
BlackRock (Ultra Short Bond Fund)	93,513	4.8%	88,974	4.8%
RBC (Global Emerging Market Equities)	-	0.0%	97,123	5.3%
Invesco (Global Multi Asset)	-	0.0%	66,629	3.6%
Churchill (Private Debt)	58,428	3.0%	54,041	2.9%
Permira (Private Debt)	70,930	3.7%	47,222	2.6%
Other investments (including MMFs & Derivatives)	6,986	0.4%	12,668	0.7%
	672,070	**34.7%**	**882,596**	**47.9%**
Total	**1,937,913**	**100%**	**1,844,250**	**100%**

c. Reconciliation of movements in investments and derivatives

For each asset class, the opening position is reconciled with the closing position as set out in the tables below.

Investment type	Market Value 31/03/2021	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Market Value 31/03/2022
	£'000	£'000	£'000	£'000	£'000
Fixed Interest Securities	184,247	63,128	(48,323)	(12,007)	187,045
Index Linked Securities	53,706	-	(5,179)	2,424	50,951
Equities	150	-	-	-	150
Pooled Investment Vehicles	1,593,600	815,507	(801,094)	84,888	1,692,901
Derivative Contracts					
Forward Currency Contracts	60	2,137	(2,270)	(54)	(127)
Futures	2	3,329	(3,104)	40	267
	1,831,765	**884,101**	**(859,970)**	**75,291**	**1,931,187**
Other Investment balances:					
Cash Deposits	10,606				4,880
Receivable for Sales	-				-
Investment Income due	1,879				1,846
Payable for Purchases	-				-
Net Investment Assets	**1,844,250**			**75,291**	**1,937,913**

The increase in market value of £75,291k is £11,113k less than the change in market value on the Fund Account of £86,404k, as the above movement includes indirect manager fees.

Investment type	Market Value 31/03/2020	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Market Value 31/03/2021
	£'000	£'000	£'000	£'000	£'000
Fixed Interest Securities	169,466	146,238	(131,837)	380	184,247
Index Linked Securities	63,733	3,194	(15,199)	1,978	53,706
Equities	150	-	-	-	150
Pooled Investment Vehicles	1,235,875	119,019	(100,590)	339,296	1,593,600
Derivative Contracts					
Forward Currency Contracts	625	2,124	(3,634)	945	60
Futures	144	2,363	(3,398)	893	2
	1,469,993	**272,938**	**(254,658)**	**343,492**	**1,831,765**
Other Investment balances:					
Cash Deposits	12,328				10,606
Receivable for Sales	-				-
Investment Income due	2,160				1,879
Payable for Purchases	(4,362)				-
Net Investment Assets	**1,480,119**			**343,492**	**1,844,250**

The increase in market value of £343,492k is £7,971k less than the change in market value on the Fund Account of £351,463k, as the above movement includes indirect manager fees.

Derivative payments and receipts correspond to the sterling equivalent amount of forward foreign exchange and futures contracts settled during the year. Further disclosure regarding derivative contracts can be found in Note 14.

d. Investments exceeding 5% of net assets

The following investments represent more than 5% of the net assets of the fund:

Security	Market Value 31 March 2022	% of total fund	Market Value 31 March 2021	% of total fund
	£'000		£'000	
LCIV 'RBC' Sustainable Equity Fund	316,647	16.1%	290,405	15.6%
BlackRock ACS World Low Carbon Equity Fund	241,530	12.3%	208,108	11.2%
LCIV Global Alpha Growth Paris-Aligned Fund	211,844	10.8%	-	0.0%
BlackRock Aquila Life UK Equity Fund	180,556	9.2%	310,330	16.7%
Threadneedle Property Fund (TPEN)	163,091	8.3%	130,750	7.0%
LCIV 'Baillie Gifford' Diversified Growth Fund	140,709	7.2%	-	0.0%
BlackRock Aquila Life MSCI World Equity Fund	-	0.0%	152,811	8.2%
GMO (Global Real Return)	-	0.0%	104,421	5.6%

e. Stock Lending

The Fund did not undertake any direct stock lending activity during the year, but acknowledges that within pooled investments fund managers may participate in this activity.

14. ANALYSIS OF DERIVATIVES

Objectives and policies for holding derivatives

The Fund may hold derivatives for risk management purposes, or to facilitate efficient portfolio management. The use of derivatives is managed in line with the investment management agreements agreed between the Fund and its investment managers. The Fund does not hold derivatives for speculative purposes.

Forward currency contracts

To maintain appropriate diversification and take advantage of overseas investment income, a proportion (maximum 30%) of the Fund's bond portfolio can be held in overseas bonds. Within the portfolio, the Fund permits a maximum allowance to non-sterling currencies of 5%. The Fund's bond manager (BMO) therefore makes use of forward currency contracts to hedge non-sterling exposure, but is not permitted to create currency positions through derivatives alone.

Forward foreign exchange contracts are disclosed in the accounts at fair value which is the gain or loss that would arise from closing out the contract at the balance sheet date by entering into an equal and opposite contract at that date. A breakdown of forward contracts held by the Fund as at 31 March 2022 is given below.

Open forward currency contracts

Settlement	Currency Bought	Local Value £'000	Currency Sold	Local Value £'000	Fair Value £'000
Assets					
One to six months	GBP	3,086	USD	(4,047)	12
	GBP	3,087	USD	(4,047)	12
Total Assets					**24**
Liabilities					
One to six months	GBP	7,380	EUR	(8,813)	(76)
	GBP	7,379	EUR	(8,813)	(76)
Total Liabilities					**(151)**
Net Forward Contracts 2021/22					**(127)**

Settlement	Currency Bought	Local Value £'000	Currency Sold	Local Value £'000	Fair Value £'000
Assets					
One to six months	GBP	6,505	EUR	(7,604)	25
	GBP	3,633	USD	(5005)	5
	GBP	19	AUD	(34)	0
	GBP	6,506	EUR	(7,604)	25
	GBP	3,632	USD	(5005)	5
Total Assets					**60**
Liabilities					
One to six months	EUR	309	GBP	(263)	(0)
	AUD	16	GBP	(9)	(0)
	AUD	25	GBP	(14)	(0)
	AUD	64	GBP	(35)	(0)
Total Liabilities					**(0)**
Net Forward Contracts 2020/21					**60**

Futures

The Fund's bond manager, BMO, is permitted to use bond futures for both risk management purposes and to facilitate efficient portfolio management. Specifically, the mandate permits BMO to use bond futures to make adjustments to the portfolio yield curve, with the restriction that total portfolio duration may not be negative in the following maturity buckets: 0-5yrs, 5-10yrs, 10-15yrs, 15-20yrs, 20+yrs.

The Outstanding futures contracts are as shown below. The economic exposure represents the notional asset value purchased under futures contracts and is therefore subject to market movements.

Investment Type	Expires	Economic Exposure	Market value 31-Mar-22	Economic Exposure	Market value 31-Mar-21
		£'000	£'000	£'000	£'000
Assets					
UK Bonds	Under one year	-	-	(8,293)	39
Overseas Bonds	Under one year	(13,972)	448	(55)	96
Total Assets			**448**		**135**
Liabilities					
UK Bonds	Under one year	(4,001)	(23)	(3,317)	(17)
Overseas Bonds	Under one year	434	(158)	17,603	(116)
Total Liabilities			**(181)**		**(133)**
Net Futures			**267**		**2**

15. FINANCIAL INSTRUMENTS

a. Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category.

Investment type	2021/2022 Designated as Fair Value through Profit & Loss	2021/2022 Financial Assets at amortised costs	2021/2022 Financial Liabilities at amortised costs	2020/2021 Designated as Fair Value through Profit & Loss	2020/2021 Financial Assets at amortised costs	2020/2021 Financial Liabilities at amortised costs
	£'000	£'000	£'000	£'000	£'000	£'000
Financial Assets						
Fixed Interest Securities	187,045	-	-	184,247	-	-
Index Linked Securities	50,951	-	-	53,706	-	-
Equities	150	-	-	150	-	-
Pooled Investments	1,505,118	-	-	1,437,864	-	-
Pooled Property funds	187,783	-	-	155,736	-	-
Derivative Contracts	472	-	-	195	-	-
Cash	-	22,880	-	-	22,028	-
Other Investment Balances	4,968	-	-	4,994	-	-
Debtors	-	9,296	-	-	8,377	-
	1,936,487	32,176	-	1,836,892	30,405	-
Financial Liabilities						
Derivative Contracts	(332)	-	-	(133)	-	-
Other Investment Balances	(22)	-	-	(15)	-	-
Creditors	-	-	(3,797)	-	-	(3,173)
	(354)	-	(3,797)	(148)	-	(3,173)
Total	**1,936,133**	**32,176**	**(3,797)**	**1,836,744**	**30,405**	**(3,173)**
Grand Total		**1,964,512**			**1,863,976**	

b. Net gains and losses on financial instruments

The majority of the financial assets and liabilities are classed at fair value. The following table summarises the net gains and losses as profit or losses associated with, the disposal of and changes in, the market value of investments and recognised within the Pension Fund account as 'Returns on Investments'.

	31 March 2022	31 March 2021
	£'000	£'000
Fair Value through Profit and Loss	75,265	343,424
Financial Assets measured at amortised cost	26	68
Financial Liabilities measured at amortised cost	-	-
Total	**75,291**	**343,492**

The increase in market value of £75,291k is £11,113k less than the change in market value on the Fund Account of £86,404k, as the above movement includes indirect manager fees.

c. Fair Value of financial instruments and liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values. The fair value may differ from the carrying value where an investment is in an asset that is not traded such as a local authority company, however in most instances the carrying value will equate to the fair value.

	31 March 2022		31 March 2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	£'000	£'000	£'000	£'000
Financial Assets				
Fair Value through Profit and Loss	1,936,487	1,936,487	1,836,892	1,836,892
Financial Assets measured at amortised cost	32,176	32,176	30,405	30,405
Total Financial Assets	**1,968,663**	**1,968,663**	**1,867,297**	**1,867,297**
Financial Liabilities				
Fair Value through Profit and Loss	(354)	(354)	(148)	(148)
Financial Liabilities measured at amortised cost	(3,797)	(3,797)	(3,173)	(3,173)
Total Financial Liabilities	**(4,151)**	**(4,151)**	**(3,321)**	**(3,321)**
Grand Total	**1,964,512**		**1,863,976**	

16. FAIR VALUE OF FINANCIAL INSTRUMENTS

Valuation of Financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1
Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2
Financial instruments at Level 2 are those where quoted market investments are not available; for example, where an instrument is traded in a market that is not considered to be active or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3
Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable data. Such instruments would include unquoted debt investments (such as private debt) and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

Basis of Valuation

All investment assets are valued using fair value techniques based on the characteristics of each instrument, where possible using market-based information. The exceptions are the £150k of Regulatory Capital to the London Collective Investment Vehicle (LCIV), required from each member of the pool and the current year initial investments in LCIV Private Debt Fund and LCIV Renewable Infrastructure Fund, which have all been carried at cost (shown in Note 16). There has been no change in the valuation techniques used during the year.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Description of Asset	Level	Basis of Valuation	Observable and Unobservable Inputs	Key Sensitivities Affecting Valuations
Cash and cash equivalents	Level 1	Carrying value is deemed to be fair value because of the short-term nature of these financial instruments	Not required	Not required
Futures (Derivatives)	Level 1	Published exchange price at the year-end	Not required	Not required
Amounts receivable from investment sales	Level 1	Carrying value is deemed to be fair value because of the short-term nature of these financial instruments	Not required	Not required
Investment debtors and creditors	Level 1	Carrying value is deemed to be fair value because of the short-term nature of these financial instruments	Not required	Not required
Fixed Interest Securities	Level 2	Market Value based on current yields		Not required
Index Linked Securities	Level 2	Market Value based on current yields		Not required
Pooled investments – Equity funds	Level 2	Published bid market price at end of the accounting period	NAV per share	Not required
Pooled investments – Ultra short bonds	Level 2	Published bid market price at end of the accounting period	NAV per share	Not required
Pooled investments – Diversified growth funds	Level 2	Published bid market price at end of the accounting period	NAV per share	Not required
Forward Foreign Exchange (Derivatives)	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Pooled investments – Property funds	Level 3	Closing single price at end of the accounting period. Threadneedle have provided additional disclosures around the valuations for these funds given the impact on the Coronavirus pandemic on property markets	NAV per share – valuation of the underlying property assets is based on CBRE methodology	Difficulties in applying standard valuation methodology (CBRE) as a result of the Coronavirus pandemic and resulting lack of property transactions
Pooled investments – Private debt funds	Level 3	Most recent valuations updated for cashflow transactions and foreign exchange movements to the end of the accounting period	Cashflow transactions, i.e. distributions or capital calls, foreign exchange movements. Audited financial statements for underlying assets	Material events between the date of the financial statements provided and the pension fund's own reporting date; differences between audited and unaudited accounts
Pooled investments - Infrastructure fund	Level 3	Most recent valuations updated for cashflow transactions.	Cashflow transactions, i.e. distributions or capital calls. Audited financial statements for underlying assets	Material events between the date of the financial statements provided and the pension fund's own reporting date; differences between audited and unaudited accounts

	Quoted market price	Using observable inputs	With significant unobservable inputs
Values at 31 March 2022	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**
Financial Assets			
Fair Value through Profit and Loss	5,416	1,515,638	415,433
Financial Assets measured at amortised cost	32,176	-	-
Total Financial Assets	**37,592**	**1,515,638**	**415,433**
Financial Liabilities			
Fair Value through Profit and Loss	(203)	(151)	-
Financial Liabilities measured at amortised cost	-	(3,797)	-
Total Financial Liabilities	**(203)**	**(3,948)**	**-**
Net Financial Assets	**37,389**	**1,511,690**	**415,433**

	Level 1	Level 2	Level 3	Total
Values at 31 March 2022	**£'000**	**£'000**	**£'000**	**£'000**
Financial Assets				
Fair Value through profit and loss				
Fixed Interest Securities	-	187,045	-	187,045
Index Linked Securities	-	50,951	-	50,951
Equities	-	-	150	150
Pooled Investment Vehicles	-	1,277,618	227,500	1,505,118
Pooled Property Funds	-	-	187,783	187,783
Derivative Contracts	448	24	-	472
Other Investment Balances	4,968	-	-	4,968
Total Financial Assets at FVTPL	**5,416**	**1,515,638**	**415,433**	**1,936,487**
Financial Liabilities				
Fair Value through profit and loss				
Derivative Contracts	(181)	(151)	-	(332)
Other Investment Balances	(22)	-	-	(22)
Total Financial Liabilities at FVTPL	**(203)**	**(151)**	**-**	**(354)**
Net Financial Assets at FVTPL	**5,213**	**1,515,487**	**415,433**	**1,936,133**

	Quoted market price	Using observable inputs	With significant unobservable inputs
Values at 31 March 2021	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**
Financial Assets			
Fair Value through Profit and Loss	5,129	1,574,614	257,149
Financial Assets measured at amortised cost	30,405	-	-
Total Financial Assets	**35,534**	**1,574,614**	**257,149**
Financial Liabilities			
Fair Value through Profit and Loss	(148)	-	-
Financial Liabilities measured at amortised cost	-	(3,173)	-
Total Financial Liabilities	**(148)**	**(3,173)**	**-**
Net Financial Assets	**35,386**	**1,571,441**	**257,149**

Values at 31 March 2021	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial Assets				
Fair Value through profit and loss				
Fixed Interest Securities	-	184,247	-	184,247
Index Linked Securities	-	53,706	-	53,706
Equities	-	-	150	150
Pooled Investment Vehicles	-	1,336,601	101,263	1,437,864
Pooled Property Funds	-	-	155,736	155,736
Derivative Contracts	135	60	-	195
Other Investment Balances	4,994	-	-	4,994
Total Financial Assets at FVTPL	**5,129**	**1,574,614**	**257,149**	**1,836,892**
Financial Liabilities				
Fair Value through profit and loss				
Derivative Contracts	(133)	-	-	(133)
Other Investment Balances	(15)	-	-	(15)
Total Financial Liabilities at FVTPL	**(148)**	**-**	**-**	**(148)**
Net Financial Assets at FVTPL	**4,981**	**1,574,614**	**257,149**	**1,836,744**

Reconciliation of Fair Value Measurement and Transfers Within Level 3

2021/22	Opening Balance	Transfers into Lvl 3	Transfers Out of Lvl 3	Purchases	Sales	Unrealised Gains/Losses	Realised Gains/ Losses	Closing Balance
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Equity - LCIV	150	-	-	-	-	-	-	150
Pooled Investments - Private Debt	101,263	-	-	131,659	(32,624)	2,302		202,600
Pooled Investments - Property Funds	155,736	-	-	-	-	-	32,047	187,783
Pooled Investments - Infrastructure	-	-	-	28,772	(3,872)	-	-	24,900
Total	**257,149**	**-**	**-**	**160,431**	**(36,496)**	**2,302**	**32,047**	**415,433**

During 2021/22 the Fund began to make capital investments toward its commitment in pooled renewable infrastructure.

The following assets have been carried at cost:

Values at 31 March 2022	Level 1 £'000	Level 2 £'000	Level 3 £'000
Investment in London CIV Ltd			150
LCIV Private Debt Fund			73,242
LCIV Renewable Infrastructure Fund			24,900
Investments held at cost	**0**	**0**	**98,292**

Unquoted equities in the London CIV asset pool are valued at cost, i.e. transaction price. The inputs available to the Fund to calculate fair value are limited, and the fund considers that the original transaction price represents an appropriate estimate of fair value. A fair value cannot be otherwise established for these assets as at 31 March 2022 as the reliability of any observable or unobservable inputs used to calculate fair value cannot be assessed with certainty.

The LCIV Private Debt and LCIV Renewable Infrastructure Funds have been valued as Level 3 Investments which are initially recognised at cost and subsequently measured at fair value. There is a time lag on receiving valuations for these funds after each quarter of the year.

All other investments are held at fair value in accordance with the requirements of the Code and IFRS 13.

2020/21	Opening Balance	Transfers into Lvl 3	Transfers Out of Lvl 3	Purchases	Sales	Unrealised Gains/Losses	Realised Gains/ Losses	Closing Balance
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Equity - LCIV	150	-	-	-	-	-	-	150
Pooled Investments - Private Debt	52,415	-	-	52,411		(3,563)		101,263
Pooled Investments - Property Funds	153,689	-	-	-	-	2,047	-	155,736
Fixed Interest - O/S Private Sector	78	-	-	-	(78)	-	-	-

Total	**206,332**	**-**	**-**	**52,411**	**(78)**	**(1,516)**	**-**	**257,149**

Sensitivity of assets valued at level 3

The fund has determined that the valuation methods described above for level 3 investments are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2022 and 31 March 2021.

2021/22	Potential Variation in Fair Value	Value at 31 March 2021	Potential Value on Increase	Potential Value on Decrease
	£'000	£'000	£'000	£'000
Equity	+/- 19.9%	150	180	120
Private Debt	+/- 9.0%	202,600	220,834	184,366
Property	+/- 15.0%	187,783	215,950	159,616
Infrastructure	+/- 14.6%	24,900	28,535	21,265
Total		**415,433**	**465,499**	**365,367**

2020/21	Potential Variation in Fair Value	Value at 31 March 2021	Potential Value on Increase	Potential Value on Decrease
	£'000	£'000	£'000	£'000
Equity	+/- 16.7%	150	175	125
Private Debt	+/- 4.6%	101,263	105,921	96,605
Property	+/- 14.2%	155,736	177,851	133,621
Total		**257,149**	**283,947**	**230,351**

17. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and Risk Management

The Fund's primary long term risk is that the Fund's assets will be insufficient to meet its liabilities, in other words, the promised benefits payable to members. The Fund maintains positions in a variety of financial instruments, as dictated by the Investment Strategy Statement (ISS) with the aim of minimising the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio.

Consequently the Fund is exposed to credit and liquidity risk, as well as market risk including foreign exchange and interest rate risk. A policy of diversification for its asset classes and investment managers helps the Fund to lower risk arising from financial instruments. Benchmarks for asset allocation and targets against which investment managers are expected to perform are further measures put in place to manage risk.

The management of risk is a key objective of the Fund and is part of the ongoing decision making process for the Pensions Committee. Risk management policies, such as the Risk Register for the Pension Fund, identify and analyse the risks faced by the Council's pensions operations. Measures to control and manage risks are also included within the risk register. Policies and the Risk Register are reviewed by Pensions Committee and also by Officers on a frequent basis.

a) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk includes interest rate risk, foreign exchange risk and other price risk. The Fund holds a variety of investments which expose it to market risk and details of the Fund's investment portfolio are set out in Note 13.

The Fund manages exposure to market risk in the following main areas:

- Regularly reviewing the pension fund investment strategy.
- Regular monitoring of asset allocation and investment performance.
- A policy of security and manager diversification.

On a daily basis Investment Managers will manage market risk in line with policies and procedures put in place in the Investment Manager Agreement and ensure the agreed limit on maximum exposure to any one issuer or any class of asset is not breached.

Other Price Risk

Other price risk is the risk that the value of the instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or currency risk).

Price risk is managed by constructing a diversified portfolio of investments traded in various markets. The Pensions Committee regularly reviews its asset allocation policy and seeks to diversify the assets that it holds. Diversification helps to ensure that the Fund has a balance of investments which offer different levels of risk and return. Pooled Funds are used where these represent the most efficient means of investing in an asset class. The breakdown between managers and asset class can be seen in Note 13.

Other Price Risk – Sensitivity Analysis

Potential price changes are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend largely on the funds' asset allocations.

Asset class	1 year expected volatility (%)	% of Fund
Infrastructure Equity	14.6	1.3
UK Equities	19.9	0.0
Global Equities (ex UK)	20.1	49.3
Emerging Market Equities	27.0	4.0
Property	15.0	9.7
Corporate Bonds (short term)	3.5	3.9
Corporate Bonds (medium term)	8.1	2.0
Corporate Bonds (long term)	9.9	1.0
UK Fixed Gilts (short term)	2.1	0.8
UK Fixed Gilts (medium term)	6.8	1.9
UK Fixed Gilts (long term)	9.2	2.1
UK Index Linked Gilts (medium term)	7.3	0.3
UK Index Linked Gilts (long term)	9.2	2.3
Cash	0.3	3.8
Diversified Growth Fund	9.1	7.3
Senior Loans	9.0	10.3
Total fund volatility	**12.1**	**100.0**

The total Fund volatility takes into account the expected interactions between the different asset classes shown, based on the underlying volatilities and correlations of the assets, in line with mean variance portfolio theory.

The volatilities for each asset class and correlations used to create the total fund volatility have been estimated using the Economic Scenario Service, a proprietary stochastic asset model maintained by Hymans Robertson LLP. The model uses probability distributions to project a range of possible outcomes for the future behaviour of asset returns and economic variables. The overall fund volatility has been calculated based on the asset valuations provided by the Fund's custodian, HSBC, and market values (bid) provided by the Administering Authority, as at 31 March 2022. The calibration of the model is based on a combination of historical data, economic theory and expert opinion. Liability values are not taken into account in calculating the volatilities.

31 March 2022		Percentage change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Net Investment Assets	1,937,913	12.1	2,172,400	1,703,426
	1,937,913	**12.1**	**2,172,400**	**1,703,426**

31 March 2021		Percentage change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Net Investment Assets	1,844,250	10.3	2,034,208	1,654,292
	1,844,250	**10.3**	**2,034,208**	**1,654,292**

The calculations assume that these changes occur immediately. In practice any changes will occur over time and the actual funding level will therefore also be affected by a number of factors including further benefit accruals, contributions and differences between expected and actual investment returns. The calculations assume that all other factors and assumptions, in particular exchange rates, remain unchanged.

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Council and its investment advisors in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmark. Investment Managers will also manage interest rate risk in line with policies and procedures put in place in the Investment Manager Agreements. Pension Fund cash held by the Administering Authority is invested in accordance with the Pension Fund's Treasury Management Strategy as agreed by the Pensions Committee.

The Fund's direct exposure to interest rate movement as at 31 March 2022 and 31 March 2021 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset Type	Balance at 31 March 2022	Balance at 31 March 2021
	£'000	£'000
Cash Deposits	4,880	10,606
Cash Balances	21,099	14,522
Fixed Interest Securities	296,992	291,051
Total	**322,971**	**316,179**

Interest Rate Risk – Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 100 basis points (bps) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effects in the year on the net assets available to pay benefits of a +/- 100 bps change in interest rates:-

Asset Type	Carrying amount as at 31 March 2022	Change in year in the net assets available to pay benefits	
		+100 bps	-100 bps
	£'000		£'000
Cash & Cash Equivalents	4,880	49	(49)
Cash Balances	21,099	211	(211)
Fixed Interest Securities*	296,992	(26,432)	26,432
Total	**322,971**	**(26,172)**	**26,172**

Asset Type	Carrying amount as at 31 March 2021	Change in year in the net assets available to pay benefits	
		+100 bps	-100 bps
	£'000		£'000
Cash & Cash Equivalents	10,606	106	(106)
Cash Balances	14,522	145	(145)
Fixed Interest Securities*	291,051	(31,201)	31,201
Total	**316,179**	**(30,950)**	**30,950**

* Note that an increase in the interest rates results in a decrease in the value of the bond portfolio and vice versa. Unlike for cash and its equivalents the change is due both to the impact of the duration (on average between 10-11 years) period of the bonds and the inverse relationship between bond prices and interest rates.

Currency Risk

The Pension Fund may invest in financial instruments and transact in denominated currencies other than its functional currency (GBP). As a result the Fund is exposed to risks that the exchange rate of its currency relative to other foreign currencies may change in a manner that has an adverse impact on the portion of the Fund's assets or liabilities denominated in currencies other than sterling.

Investment Managers will manage foreign exchange risk by the means of passive hedging and enter into forward currency contracts to protect assets which have exposure to currencies other than sterling (further details are in Note 14).

The following table summarises the Fund's fair value exposure to assets denominated in currencies other than pound sterling as at 31 March 2022 and as at the previous period end:

Currency Exposure – asset type	Asset Value as at 31 March 2022	Asset Value as at 31 March 2021
	£'000	£'000
Equities	-	-
Fixed Interest Securities	22,215	20,560
Indexed Linked Securities	-	-
Pooled Investment Vehicle	58,428	54,041
Cash and Deposits	543	573
Total	**81,185**	**75,174**

Currency Rate Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's investment consultant, the estimated volatility for individual currency was assessed and used for the following sensitivity analysis.

31 March 2022		Potential Change v GBP	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Currency Exposure	81,185	9.5	88,898	73,472
Total change in assets			**7,713**	**(7,713)**

31 March 2021		Potential Change v GBP	Value on increase	Value on decrease
	£'000	%	£'000	£'000
Currency Exposure	75,174	9.8	82,541	67,807
Total change in assets			**7,367**	**(7,367)**

This analysis assumes that all other variables, in particular interest rates, remain constant and that these changes occur immediately. In practice any changes will occur over time.

b) Credit Risk

Credit risk is the risk that the counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The market value of investments generally reflect an assessment of credit risk in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

The Pension Fund reviews its exposure to credit and counterparty risk through its external Investment Managers by reviewing the Managers' annual internal control reports. This ensures that Managers exercise reasonable care and due diligence in their activities for the Pension Fund, such as in the selection and use of brokers, clearing houses, counterparties and other appointees with whom transactions on behalf of the Fund take place.

A counterparty rating is one measure of credit risk. The carrying amounts of investment assets best represent the maximum credit risk exposure at the Net Asset Statement date.

A majority of the assets of the Fund are held by the Fund's custodian, HSBC Global Services. Bankruptcy or insolvency of the custodian may cause the Fund's rights with respect to securities held by the custodian to be delayed or limited. Cash not forming part of the investment assets is held in the Fund's current accounts with Lloyds Bank.

The Pensions Committee and senior officers monitor this risk by keeping under review the credit rating and financial positions of the custodian and banks the Fund uses.

Any excess cash from the Fund's bank accounts is invested in accordance with the Pension Fund's Treasury Management Strategy, prepared in accordance with the CIPFA Prudential Code and CIPFA Treasury Management Code of Practice. The Treasury Management Strategy sets out the criteria for investing and selecting investment counterparties and details the approach to managing risk for the Fund's exposure. In addition, excess cash held with the custodian is swept into a liquidity fund to provide further diversification.

The Fund's holdings under the arrangements described above were held with the following:

Summary	Rating (Fitch)	Balance at 31 March 2022	Balance at 31 March 2021
		£'000	£'000
Cash (Current Assets)			
Lloyds Bank Plc	A+	21,099	14,522
Cash Deposits (Investment Assets)			
Cash held outside fund managers and custodian			
Money Market Funds (Various)	AAA	3,100	3,100
Cash held by fund managers and custodian			
Cash	AA-	1,780	7,506
Call Accounts (Various)	AA- to A	-	-
Total		**25,979**	**25,128**

c) Liquidity Risk

Liquidity risk corresponds to the pension fund's ability to meet its financial obligations when they come due with sufficient and readily available cash resources.

The Fund's investments are substantially made up of listed securities which are considered readily realisable as they are listed on major security exchanges. The Fund's key exposure to illiquid assets is via its private debt mandate, currently valued at £202,600K and its infrastructure mandate currently valued at £24,900K. Whilst the Fund has no direct property exposure, it is invested in a single-priced, open-ended property fund. Whilst the Fund itself offers daily liquidity, the illiquid nature of the underlying assets exposes the Fund to a degree of liquidity risk

The Fund maintains investments in cash and cash equivalents outside of the investment assets held by the custodian that are highly liquid and can be used for payables and expenses such as pension payments, transfers out, etc. The Fund's cash position is monitored on a daily basis by both the pension administrator and the pensions team.

Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The Pensions Committee in collaboration with the Fund's actuary regularly review the Funding Strategy which considers the results of the triennial valuations to ensure the long-term solvency of the Fund as a whole, and that sufficient funds are available to meet all benefits as they fall due for payment. This ensures that sufficient cash reserves are available to meet forecasted cash outflows.

18. FUNDING ARRANGEMENTS

The actuarial valuation of the Pension Fund is carried out every three years, in line with the Local Government Pension Scheme Regulations 2013. The purpose is to set employer contribution rates for the forthcoming triennial period. This is carried out by an independent actuary appointed by the Fund and the last valuation took place as at 31 March 2019. The next valuation will take place as at 31 March 2022.

The contribution rates are set at a level sufficient to meet the cost of future benefits accruing and to eliminate, over a period of time, the deficit arising from past service. The valuation is carried out in accordance with the Fund's Funding Strategy Statement (FSS) a copy of which can be found on the Pension Fund website https://hackneypension.co.uk/ and a copy is also included in the Pension Fund Annual Report and Accounts.

The objectives of the Fund's funding policy include the following:

- To ensure the long-term solvency of the Fund as a whole and the solvency of each of the notional sub-funds allocated to the individual employers.
- To ensure that sufficient funds are available to meet all benefits as they fall due for payment.
- Not to restrain unnecessarily the investment strategy of the Fund so that the Administering Authority can seek to maximise investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk.
- To help employers recognise and manage pension liabilities as they accrue with consideration to the effect on the operation of their business where the Administering Authority considers this appropriate.
- To minimise the degree of short-term change in the level of each employer's contributions where the Administering Authority considers it reasonable to do so.
- To use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer ceasing participation or defaulting on its pension obligations.
- To address the different characteristics of the disparate employers or groups of employers to the extent that this is practical and cost-effective.
- To maintain the affordability of the Fund to employers as far as is reasonable over the longer term.

The 2019 valuation was based on a market value of the Fund's assets as at 31 March 2019, which amounted to £1,575 million and revealed a pension deficit of £131 million, representing a funding level of 92% of the pension liability.

The valuation takes account of the amount of current and future pension liabilities of the Fund, the expected contributions received by the Fund and the expected rate of investment returns held by the Fund. Other factors which influence the valuation and are taken into account by the actuary include anticipated pay, pension inflation, and mortality rates. The whole fund primary contribution rates applying from 1 April 2020 until 31 March 2023 and based on the 2019 valuation report are as follows:

Year	Employer Contribution rate
2020/21	18.7%
2021/22	18.7%
2022/23	18.7%

The rates payable by the London Borough of Hackney and other participating scheduled and admission bodies vary from the contribution rate for the Fund as a whole according to the employer's individual circumstances.

The Fund's actuary, Hymans Robertson, has calculated the contribution rate using the Projected Unit Method. This assesses the cost of benefits (as a percentage of pay) accruing to existing members during the year following the valuation, allowing for future salary increases.

The minimum required contributions (both primary and secondary) payable by each employer are set out in the Rates and Adjustments Certificate. Each employer must pay the percentage rate or monetary amount specified in the certificate, whilst the frequency of payment is prescribed by the Local Government Pension Scheme Regulations 2013.

The principal 2019 valuation report assumptions which informed the contributions payable from 1 April 2020 were:

Financial Assumptions based on 2019 Valuation Report

Assumption	Rate	Explanation
Investment return (discount rate)	3.85%	Based on 25-Year bond returns extrapolated to reflect the duration of the Fund's liabilities
Inflation	2.3% – CPI	
Salary increases*	2.6%	0.3% pa over CPI
Pension increases	In line with CPI	Assumed to be 0.9% less than RPI

*plus an allowance for promotional pay increases.

Mortality Assumptions

Future life expectancy based on the actuary's fund-specific mortality review was:

Mortality assumptions at age 65	Male	Female
Current pensioners	21.2	23.4
Future pensioners (assumed current age 45)	22.4	25.1

Commutation Assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

19. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the Fund's actuary also undertakes an accounting valuation of the Fund's liabilities on an IAS 19 basis every year. This uses membership data from the funding valuation with economic assumptions adjusted for the current financial year. This valuation is used for statutory accounting purposes and uses different assumptions from the triennial funding valuation, (see Note 18), which is used to determine the contribution rates payable by employers.

The actuarial present value of promised retirement benefits at the accounting date 31st March 2022, calculated in line with IAS 19 assumptions, is estimated to be £2,656 million (£2,742 million in 2020/21).

Present Value of Promised Retirement Benefits	31 March 2022	31 March 2021
	£m	£m
Active members	1,049	1,018
Deferred members	779	835
Pensioners	828	889
Total	**2,656**	**2,742**

The Fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

The financial assumptions used for the IAS19 2022 valuation have been revised from the 2019 valuation report as set out in the table below:

Assumption	2022	2021
Pension increase rate assumption	3.20%	2.75%
Salary increase rate	3.50%	3.05%
Discount rate	2.7%	1.95%

20. CURRENT ASSETS

The following is an analysis of the **non-investment** debtor and cash balances carried on the Net Asset Statement.

	31 March 2022 £'000	31 March 2021 £'000
Short-Term Debtors:		
Contributions due	7,222	6,272
Sundry debtors	1,767	1,792
Cash Balances	21,099	14,522
VAT	82	155
Total	**30,170**	**22,741**

20a. LONG TERM DEBTORS

The lifetime allowance (LTA) is the overall limit on tax free pension funds a member can accrue during their lifetime. Where a member exceeds the LTA a tax charge is incurred.

The annual allowance (AA) is the overall limit on tax free pension funds a member can accrue during the year. Where a member exceeds the AA a tax charge is incurred.

Members can elect to pay the charge themselves or have the fund pay on their behalf to be recovered through reduced benefits. The following figure represents the balance of amounts paid over to HMRC for those members who have exceeded the life-time or annual-allowance pension tax free allowance less repayments recovered through a reduction of member benefits on retirement.

	31 March 2022 £'000	31 March 2021 £'000
Long-Term Debtors:		
Reimbursement of LTA / AA	226	158
Total	**226**	**158**

21. CURRENT LIABILITIES

The following is an analysis of the non-investment creditors balance carried on the Net Asset Statement.

Creditors	31 March 2022 £'000	31 March 2021 £'000
Short-Term Creditors:		
Benefits Payable	(1,670)	(1,031)
Sundry Creditors	(2,127)	(2,142)
Total	**(3,797)**	**(3,173)**

22. ADDITIONAL VOLUNTARY CONTRIBUTIONS

The Fund provides an AVC scheme for its contributors, the assets of which are invested separately from the Fund, in accordance with regulation 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. The scheme provider is Prudential, where the sums saved are used to secure additional benefits on a money purchase basis for those contributors electing to pay additional voluntary contributions.

The total value of sums invested in the AVC funds as at 31 March 2022 was £5.030 million (£5.037million as at 31 March 2021). Contributions received into the AVC facility during the year amounted to £0.197 million (£0.203 million in 2020/21). The efficiency and effectiveness of the provider is monitored on a periodic basis to assess performance.

23. RELATED PARTY TRANSACTIONS

London Borough of Hackney

The Fund is administered by the London Borough of Hackney. The Council is also the single largest employer of members of the pension fund and contributed £58.46 million to the Fund in 2021/22 (2020/21: £59.34 million). Consequently there is a strong relationship between the Council and the Pension Fund.

The Council incurred costs of £0.42 million in 2021/22 (£0.36 million in 2020/21) in relation to administration of the Fund and was consequently reimbursed by the Fund for these expenses. Part of the Pension Fund cash holdings are invested on the money markets by the treasury management operations of the London Borough of Hackney in line with the Treasury Management Strategy.

London Collective Investment Vehicle

The London CIV is a collective investment vehicle established by London Councils on behalf of the London Boroughs and the City of London Corporation. It consists of an ACS (Authorised Contractual Scheme) Operator, which is a limited company wholly owned by the 32 participating authorities, and the ACS fund itself. The Council is therefore a shareholder in the operating company. During 2015/16, the Pension Fund made an investment of £150k in the CIV to provide it with sufficient regulatory capital.

The Fund incurred costs of £110k in 2021/22 (£110k in 2020/21) in relation to charges from the London CIV Ltd (the operating company).

The Fund incurred costs of £151k in 2021/22 (£32k in 2020/21) in relation to the custody and management of investments held and managed within the London CIV regional asset pool.

Governance

The following Pensions Committee Members were deferred members of the Local Government Pension Scheme (LGPS) during the year; Cllr Michael Desmond (Vice-Chair).

The following Pensions Committee Members were pensioner members of the Local Government Pension Scheme (LGPS) during the year; Cllr Robert Chapman (Chair)

Jonathan Malins-Smith, Scheme Member Representative, is also a deferred member of the Pension Scheme

24. KEY MANAGEMENT PERSONNEL

Several employees of the London Borough of Hackney hold key positions in the financial management of the Fund. As at 31 March 2022 these employees included:

Group Director of Finance and Corporate Resources, Director of Financial Management, Head of Pensions, Pensions Manager and Group Accountant

All of these employees were also members of the pension scheme. The financial value of their relationship with the Fund (in accordance with IAS 24) is set out below:

	31 March 2022	31 March 2021
	£'000	£'000
Short term benefits	238	192
Long term/post-retirement benefits	44	36
Total	**282**	**228**

The disclosures required by Regulation 7(2)-(4) of the Accounts and Audit (England) Regulations can be found in the main accounts of the London Borough of Hackney.

25. CONTINGENT ASSETS, CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments (investments) at 31 March 2022 were £203,586k (31 March 2021: £327,153k). These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private debt parts of the portfolio and pooled renewables infrastructure fund. The amounts 'called' by these funds are irregular in both size and timing over a period of between one and three years from the date of each original commitment.

Outstanding Capital Commitment	31 March 2022 £'000	31 March 2021 £'000
Pooled Private Debt Funds	138,486	237,153
Pooled Renewables Infrastructure Fund	65,100	90,000
Total	**203,586**	**327,153**

26. IMPAIRMENT LOSSES

During 2021/22 there were £0k impairment losses to recognise (2020/21: £0k) for non-recovery of pension overpayments. Investment-related losses related to the Covid-19 pandemic and the impact of the Ukraine-Russia conflict are accounted for through the change in market value of investments.

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Hackney

Title of Report	Review of Pensions Committee Work
For Consideration By	Pensions Board
Meeting Date	22nd September 2022
Classification	Open
Ward(s) Affected	All
Group Director	Ian Williams, Group Director Finance & Corporate Resources

1. Introduction

1.1. The purpose of this report is for the Pensions Board to consider the work undertaken by the Pensions Committee at its meetings in the period from April 2022 to September 2022 and to note items that are relevant to the work of the Pension Board. It also includes a forward look at the upcoming work of the Committee during 2023.

1.2.

2. Recommendations

2.1. **The Pensions Board is recommended to:**

- Note the report

3. Related Decisions

3.1. None

4. Comments of the Group Director of Finance and Corporate Resources.

5. Understanding the remit of and decisions taken by the Pensions Committee helps the Pensions Board to assist Hackney Council as the administering authority in ensuring the efficient and effective governance and administration of the Fund, in line with its statutory duties. Good governance of the Fund helps to ensure its long term financial health and that of its stakeholders, including the Council.

6. There are no immediate financial implications arising from this report.

7. **Comments of the Director of Legal, Democratic and Electoral Services**

7.1. The role of the Pensions Board is prescribed by Section 106 of the Local Government Pension Scheme Regulations 2013 and includes the following:

- Securing compliance with the Local Government Pension Scheme Regulations 2013 and any other legislation relating to the governance and administration of the Scheme and any connected scheme

- Securing compliance with any requirements imposed by the Pensions Regulator in relation to the Scheme and any connected scheme

- Ensuring the effective and efficient governance and administration of the Scheme and any connected scheme

7.2. Reviewing the work and decision-making processes of the Pensions Committee helps the Board to ensure that decisions are being taken in line with the Local Government Pension Scheme Regulations 2013 and other relevant legislation, and that the scheme's governance and administration processes are efficient and effective.

7.3. Taking into account the role of the Pensions Board as set out in the Regulations, the consideration of the work of the Pensions Committee would appear to properly fall within the Board's remit.

8. **Background to the Report**

8.1. Whilst not a decision making body for the Pension Fund, the Board does have a broad remit to review the decision-making process of the Pensions Committee and in particular, matters relating to scheme administration and governance.

8.2. Where Pensions Committee work has specific relevance to the Pension Board and where the subject matter is such that it would be helpful for the Board to consider it in greater detail, these have become dedicated papers for the Board agenda. In other areas, it is worth highlighting either reports or elements of Committee reports that are of relevance to the Board.

8.3. The links to the Committee meetings covered in this report are as follows:

- March 2022

https://hackney.moderngov.co.uk/ieListDocuments.aspx?CId=499&MId=5271&Ver=4

- June 2022

https://hackney.moderngov.co.uk/ieListDocuments.aspx?CId=499&MId=5459&Ver=4

8.4. At its March 2022 meeting, the Committee considered the following reports:

- Responsible Investment Policy
- Risk Policy
- Procurement & Contracts Update
- Administration Strategy
- Business Plan
- Quarterly Update Report
- Cyber Security Policy

Key items particularly relevant to the Board were the Risk Policy, the Procurement & Contracts Update, the Administration Strategy, Business Plan and the Cyber Security Policy.

8.5. At its June 2022 meeting, the Committee considered the following reports:

- Carbon Risk Audit
- Responsible Investment - Next Steps
- Quarterly Update Report
- Third Party Administration Performance Update
- Actuarial Valuation - Council Contribution Rate
- Investment Strategy Review - Introduction
- Reporting Breaches Procedure
- Procurement & Contracts Update

Key items particularly relevant to the Board were the Third Party Admin Performance Update, the Actuarial Valuation - Council Contribution Rate paper, the Reporting Breaches Procedure and the Procurement & Contracts Update.

8.6. As a standing item on the Pensions Committee agenda, the quarterly monitoring report provides both the Pensions Committee and the Board with an update on the key facts pertaining to the Pension Fund. Updates are usually provided on funding, investment performance, budget monitoring, responsible investment, pensions administration and reporting of breaches. Key to the role of the Board is ensuring that the Fund is being administered in accordance with the regulations and the quarterly report helps demonstrate that the Committee receives regular updates on a number of issues covered by statute. Of particular relevance to the Board are the sections on administration performance and reporting breaches.

8.7. Following the Council elections in May 2022, Cllr Michel Desmond, Cllr Polly Billington, Cllr Nick Sharman and Cllr Patrick Spence stood down from the Pensions Committee; the Fund's officers wish to thank them all for their time and effort as Committee members. Particular thanks go to Cllr Desmond, who served as the Committee's Vice-Chair for many years. Four new members have now joined the Committee; we wish to welcome Cllr Grace Adebayo, Cllr Lynne Troughton, Cllr M Can Ozsen and Cllr Ian Rathbone.

9. Upcoming work

9.1. Over the coming months, the actuarial valuation will remain a key focus of work for the Committee, as well as considering further changes to the investment strategy to pool more of the Fund's legacy assets and align with the 2022 funding strategy.. The Committee will also be considering its approach to Responsible Investment, including the introduction of a new set of metrics to be monitored under TCFD reporting (the Taskforce for Climate-related Financial Disclosures).

9.2. The Committee will be involved with the re-procurement of 2 key contracts for the Fund; the benefits and governance contract and the actuarial services contract. These are both up for review in early 2023. The Committee will also continue to receive updates on major projects including the McCloud rectification, GMP rectification and the Pensions Data Service.

Appendices

None

Background documents

None

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Hackney

Title of Report	Data Improvement Update
For Consideration By	Pensions Board
Meeting Date	22nd September 2022
Classification	Open
Ward(s) Affected	All
Group Director	Ian Williams, Group Director Finance & Corporate Resources

1. Introduction

1.1. This report provides the Board with an update on the Fund's ongoing project to improve both the quality of membership data and its timescales for issuing annual benefit statements (ABSs) to members. The report covers actions taken to help improve in the longer term the quality of data provided by the Council as an employer and to cleanse the data currently held on the pension administration system in relation to Hackney Council and schools' staff.

2. Recommendations

2.1. **The Pensions Board is recommended to:**

- Note the report

3. Related Decisions

3.1. None

4. Comments of the Group Director of Finance and Corporate Resources.

4.1. The standard of monthly and year end contribution data held by the Fund entered a period of decline from 2013 onwards, as the introduction of auto-enrolment and changes from the 2014 scheme made the provision of adequate data more challenging.

4.2. The financial implications of poor quality data for the Pension Fund are considerable; not only does it raise the risk that member benefits will not be calculated in accordance with scheme regulations, but could also reduce the accuracy of the Fund's actuarial valuation and lead to inefficient management of investment risks.

4.3. This could result in employers, including the Council, paying insufficient or excessive contributions with a material impact on their own finances. The involvement of the Pension Regulator (tPR) in this area also raises the risk of financial penalties and reputational damage.

4.4. There are costs associated with improving data quality, such as staff time and project management support. However, the costs of holding poor data, including additional administration costs and potential financial penalties far outweigh the costs of improvement.

5. <u>Comments of the Director of Legal, Democratic and Electoral Services</u>

5.1. The Pension Fund is required, under Section 4 of the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 to hold certain information about its members. Failure to maintain complete and accurate records could result in the Fund failing to pay benefits in accordance with scheme regulations, inefficient management of investment risk and potentially excessive or insufficient contribution rates for employers.

5.2. Failure to adhere to the overriding legal requirements could therefore impact on meeting the ongoing objectives of the Pension Fund. In addition, where scheme managers or pension boards fail to address poor standards and non-compliance with the law, tPR will consider undertaking further investigations and taking regulatory action, including issuing an enforcement action notice or imposing a substantial financial penalty against the Fund.

5.3. The role of the Pension Board is prescribed by Section 106 of the LGPS Regulations 2013 and includes the following: securing compliance with the Local Government Pension Scheme Regulations 2013 and any other legislation relating to the governance and administration of the Scheme and any connected scheme, securing compliance with any requirements imposed by the Pensions Regulator in relation to the Scheme and any connected scheme, ensuring the effective and efficient governance and administration of the Scheme and any connected scheme.

5.4. Taking into account the role of the Pension Board as set out in the Regulations, reviewing the progress made towards compliance with statutory record-keeping requirements clearly falls within the remit of the Pension Board.

6. Background to the Report

6.1. Submitting good quality data to the Pension Fund has been an ongoing problem for the Council for a number of years. The increased complexity of the 2014 CARE scheme and the introduction of auto-enrolment have made the provision of accurate data more challenging; the quality of the data held by the Fund saw a sharp decline from 2013 onwards.

6.2. Poor data poses significant financial and reputational risks to both the Pension Fund and the Council itself. Clearly, inaccurate contribution data raises the risk that member benefits will be calculated incorrectly but could also reduce the accuracy of the Fund's actuarial valuation. This could result in employers, including the Council, paying insufficient or excessive contributions with a material impact on their own finances.

6.3. The issue has also affected the provision of information to scheme members. The Fund has a statutory duty to provide active and deferred members with an Annual Benefit Statement (ABS) by 31st August each year. Failure of employers to provide adequate membership data can delay the production of ABSs, breaching the Fund's statutory duty and necessitating a declaration to the Pensions Regulator.

6.4. The Pensions Regulator (tPR), has oversight of the governance and administration of local government pension funds. It has a number of regulatory tools at its disposal to help ensure the compliance of scheme managers with their statutory duties and obligations; these include improvement notices and financial penalties. The Fund has a legal requirement to report breaches of the law under section 70 of the Pensions Act 2004. The Fund has been required to make five consecutive reports to the Regulator concerning failure to issue annual benefit statements, raising the risk of financial penalties and reputational damage.

7. Recent Developments

7.1. During 2021 and 2022, staff from the Council's Pensions , ICT and Payroll teams have worked closely with Midland, the Council's payroll software provider and external consultant to develop an automated process to upload member data to Compedia, the Pensions Administration system. The monthly process went live during spring 2022. Significant work has also been carried out by Equiniti to cleanse the Fund's existing data and ensure that data from the new upload process is correctly imported.

7.2. The project has resulted in significant improvements to the quality of data held by the Fund. The Fund was one of the first to submit data to its Actuary for the 2022 valuation process; this data has been reviewed by the Fund Actuary and, whilst some areas for improvement have been identified, the data is considered overall to be of good quality.

7.3. Annual Benefit Statements for Active and Deferred members for 2021/22 have now been sent out; the vast majority of these were sent by the deadline of 31st August. Statements for 19 Active and 28 Deferred members could not be sent before the deadline; the remainder of statements required have been sent on time or can be legitimately excluded from the ABS process (for example, if no address can be found for the member after the FUnd's recent address tracing exercise).

7.4. This represents a very significant improvement reactive to previous years; having reviewed the process, Fund officers do not consider that a report to the Pensions Regulator will be required.

7.5. The quality of member data remains a key risk for the Fund, and this area will be kept under close review. A review of administration processes is currently being carried out by Aon, the Fund's benefits advisor and the Council's internal audit team are due to review the Council's new processes for data submission later in the autumn.

Appendices

None

Background documents

None

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