Hackney

REPORT OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES		
LGPS UPDATE – INVESTMENT POOLING AND GAD SECTION 13 REPORT **Pensions Committee** **19th September 2016**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **Two**

1. INTRODUCTION

1.1 This report provides the Committee with an update on the Government's pooling agenda for LGPS funds and progress made by the London Collective Investment Vehicle. It also provides Members with information on the 'dry run' Section 13 analysis completed by the Government Actuary's Department (GAD) using the 2013 valuations. The report includes a copy of GAD's S13 report and an S13 briefing note from Hymans Robertson as appendices

2. RECOMMENDATIONS

2.1 The Pensions Committee is recommended to note the report

3. RELATED DECISIONS

- Pensions Committee 27th June 2016 – LGPS Investment Pooling Update
- Pensions Committee 23rd March 2016– Investment Pooling Criteria Update
- Pensions Committee 13th January 2016 - Investment Reform Criteria & Guidance and consultation on amending Investment Regulations
- Pensions Committee 21st September 2015 – Pensions Update and Collaborative Working Update
- Pensions Committee 24th June 2015 – Approval to invest regulatory capital in London CIV, required to facilitate the setting up of the Fund.

4. COMMENTS OF THE GROUP DIRECTOR OF FINANCE & CORPORATE RESOURCES

4.1 The Criteria and Guidance issued by Government is likely to have far reaching financial implications for all LGPS funds in England and Wales. Pooling of investments is targeted by government to lead to significant savings in the management of LGPS assets and it is hoped in due course that additional governance benefits will also at least maintain performance if not enhance it. This will obviously impact on the Fund in terms of the costs incurred in the future. Authorities were required to provide financial information on the level of savings expected from pooling investments as part of their responses to the Government's criteria and guidance

4.2 As Members will be aware the London Borough of Hackney has been an active partner in the early and ongoing collaboration amongst London LGPS Funds to form the London Collective Investment Vehicle (CIV) and whilst there have been initial set up costs of £75,000 and a requirement for £150,000 Regulatory Capital Investment, these are expected to be relatively insignificant in terms of the longer term investment manager fee savings which the CIV will deliver.

4.3 Section 13 of the Public Service Pensions Act raises no immediate cost implications. However, when its provisions come fully into force for the 2016 valuations, it should be noted that the Secretary of State for Communities and Local Government, as the responsible authority for the Scheme, is granted the power to require an administering authority to take any remedial action they consider appropriate. This provision therefore has the potential to require adjustments to the assumptions used for a local valuation, which may then result in an increase in costs to employers.

5. COMMENTS OF THE DIRECTOR, LEGAL

5.1 The reporting being presented highlights some fundamental changes to the way in which LGPS investments will now be managed. Whilst to date the legal framework for investment management within the LGPS has not changed dramatically, Government have clearly communicated their intention with regards to the formation of asset pools.

5.2 Changes will be required to the LGPS (management and investment of funds) regulations to remove some of the current restrictions and limitations, particularly around investment in collective investment vehicles. These changes are expected to be made by the updated LGPS (management and investment of funds) regulations 2016, which we hope will be finalised before the end of the year.

5.3 Section 13 of the Public Service Pensions Act 2013 has the power to require administering authorities to take remedial action if the Government Actuary's Department (GAD) reports concerns, based on the metrics set out, around how the authority's local actuarial valuation has been conducted. GAD's approach, based on the S13 'dry-run' report described below has been to engage with authorities to resolve issues, but the provision does grant potentially significant powers to the Secretary of State for Communities and Local Government as the Responsible Authority.

5.4 There are no immediate legal implications arising from this report.

6. INVESTMENT POOLING UPDATE

6.1 On 25th November 2015, the Government published its long awaited Investment Reform Criteria and Guidance. Initial responses were required by the 19th February 2016, setting out proposals as to how funds were going to meet these criteria with a further more detailed submission required by 15th July 2016.

6.2 Eight pools submitted a detailed response to Government by 15th July. These included the London CIV, a Northern Pool across West Yorkshire, Greater Manchester and Merseyside funds, and the Local Pension Partnership made up of

Lancashire, Berkshire and the London Pension Fund Authority. The Central pool, including 9 funds, also submitted a response, as did the "Brunel" pool, made up mainly of funds from the South West of England. The ACCESS (A Collaboration of Central, Eastern and Southern Shires) pool includes nine shire authorities and the Isle of Wight, whilst a group of 13 'like-minded' funds make up the Borders to Coast pool. The 8 Welsh funds also submitted a response as a 'Welsh Pool'

6.3 The pools received informal feedback on their submissions during August, with the formal review panel due to meet in September, when it is hoped that formal confirmation will be received by the pools.

6.4 The London CIV submitted its response on behalf of all its constituent funds; however, a number of funds, including Hackney, added their own specific responses as appendices to the main submission. Hackney's response allowed the Fund to set out for Government its long involvement and ongoing commitment to the CIV as a collaborative project, whilst highlighting concerns around the mandatory nature of the project.

6.5 Within the CIV itself, there have been a number of new developments since the previous update. The London Borough of Bromley is now joining, meaning that all 32 London Local Authorities, plus the City of London, are now on board. The CIV has also opened two new sub-funds (Pyrford Global Total Return and Ruffer Absolute Return), bringing the total number of sub-funds opened to 5, with around £2.4bn of assets under management. A number of further sub-funds are expected to open before the end of the year.

6.6 Officers from the Fund continue to be involved with the CIV, with representation on both the Investment Advisory Committee and on a number of working groups within it, including the Equities, Sustainable Investment and Fixed Interest groups. Notable projects currently underway include a Global Equities procurement, with a tender currently out for a variety of Global Equity Strategies.

6.7 Work on transferring the Hackney Fund's liquid assets to the CIV will begin with the development of the new Investment Strategy Statement. This will be developed in line with the Funding Strategy, taking into account the outcome of the 2016 valuation. It is also dependent on the anticipated update from Government to the LGPS (Investment and management of funds) regulations, which will prescribe the format of the new statement. A provisional timetable for the transfer of assets has been submitted as part of the CIVs proposal to Government.

7. SECTION 13 'DRY RUN' REPORT UPDATE

7.1 Section 13 of the Public Service Pensions Act provides for a review of LGPS funding valuations and employer contribution levels to check that these are appropriate, and requires that remedial action be taken where this is not found to be the case. Section 13 will apply for the first time to the 2016 valuations.

7.2 The Government Actuary has been appointed by the Department of Communities and Local Government (DCLG) to carry out the review under Section 13. Specifically, this requires them to assess:

- Compliance – whether the Fund's valuation is in accordance with the scheme regulations

- Consistency – whether the Fund's valuation has been carried out in a way which is not inconsistent with the other fund valuations within the LGPS
- Solvency – whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund
- Long term cost efficiency – whether the rate of employer contributions is set at an appropriate level to ensure the long term cost-efficiency of the scheme, so far as relating to the pension fund.

The resulting report may recommend remedial action where appropriate; the scheme manager (in this case the administering authority) must take and report on any remedial action they consider appropriate, although the law does provide for the Government to direct the scheme manager if they consider it necessary.

7.3 DCLG also requested that the Government Actuary's Department (GAD) carry out a 'dry run' of their assessment, reporting on the 2013 valuations as though Section 13 had applied to them.

The 'dry run' report found:

- No evidence of material non-compliance
- Some inconsistencies between the valuations in terms of approach taken, assumptions used and disclosures, making meaningful comparison of local valuations difficult. Issues include differences of approach in terms of the derivation of discount rates, and the interpretation of the common contribution rate. The report shows the 2013 valuations presented on a standardised basis, with assumptions set by GAD. The funding level of the Hackney Fund improves considerably relative to its peers when presented on a standardised basis.
- Some possible risks to sponsoring employers when funds were analysed on a series of 6 solvency measures, split into risks already present (SAB funding level, open fund and non-statutory employees) and emerging risks (liability shock, asset shock and employer default). Hackney raised one amber flag under this assessment for asset shock, which is concerned with the potential change in employer contribution rates required after a 15% fall in the value of return seeking assets. This reflects the Fund's substantial allocation to return seeking assets, and was not considered sufficient to warrant engagement by GAD with regards to the Fund's solvency
- A small number of flags triggered on the metrics used to assess long term cost efficiency. These are split into relative considerations, that compare funds to other LGPS funds (Deficit repaid, deficit period, required return and repayment shortfall) and absolute considerations, which are concerned with funds on a standalone basis (return scope, deficit extension and interest cover). The Hackney Fund did not trigger any flags on this measure.

7.4 The S13 report can be used to provide stakeholders with reassurance that the LGPS as a whole is able to meet the liabilities owed to its members, and to highlight where individual funds appear to be outliers from the main pack. On the basis of the 2013, the Hackney Fund has not raised any concerns which GAD felt would justify an engagement with the Fund and compares well with its peers when its funding level is considered on a standardised basis. The Fund will continue to need to conduct its local triennial valuation in a way that allows it to meet its specific liabilities given its own local circumstances; the S13 report is not intended to force a standardised basis for valuations or to be used as a minimum funding requirement.

Ian Williams
Group Director of Finance & Corporate Resources

Report Originating Officers: Rachel Cowburn ☎020-8356 2630
Financial considerations: Michael Honeysett ☎020-8356 3332
Legal comments: Stephen Rix ☎020-8356 6122

Appendices:
Appendix 1: Government Actuary’s Department Section 13 ‘Dry run’ report
Appendix 2: Section 13 Briefing Note from Hymans Robertson

Background Papers
None