Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
Pension Fund – Quarterly Update **Pensions Committee** **10th September 2019**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **Six**

1. INTRODUCTION

1.1 This report is an update on key quarterly performance measures, including an update on the funding position, fund governance, investment performance, responsible investment, budget monitoring, administration performance and reporting of breaches.

2. RECOMMENDATIONS

2.1 The Pensions Committee is recommended to note the report.

3. RELATED DECISIONS

- Pensions Committee 29th March 2017 –2016 Actuarial Valuation and Funding Strategy Statement
- Pensions Committee 29th March 2017 –Investment Strategy Statement
- Pensions Committee 26th March 2019 –Pension Administration Strategy (PAS)

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

4.1 The Pensions Committee has delegated responsibility for management of the Pension Fund. Quarterly monitoring of key aspects of the management of the Pension Fund is good practice and assists the Committee in making informed decisions. .

4.2 Monitoring the performance of the Fund's investment managers is essential to ensure that managers are achieving performance against set benchmarks and targets. Performance of the Fund's assets will continue to have a significant influence on the valuation of the scheme's assets going forward. The investment performance of the Fund is a key factor in the actuarial valuation process and therefore directly impacts on the contributions that the Council is required to make into the Pension Scheme.

4.3 The Committee's responsibilities include setting a budget for the Pension Fund and monitoring financial performance against the budget. Quarterly monitoring of the budget helps to ensure that the Committee is kept informed of the progress of the Fund and can provide the Committee with early warning signals of cashflow issues and cost overruns.

4.4 Reporting on administration is included within the quarterly update for Committee as best practice. Monitoring of key administration targets and ensuring that the administration functions are carried out effectively will help to minimise costs and ensure that the Fund is achieving value for money.

4.5 Whilst there are no direct impacts from the information contained in this report, quarterly monitoring of key aspects of the Pension Fund helps to provide assurance to the Committee of the overall financial performance of the Fund and enables the Committee to make informed decisions about the management of the Fund.

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

5.1 The Pensions Committee's Terms of References sets out its responsibility for management of the Pension Fund. The Committee has delegated responsibility:

- To make arrangements for the triennial actuarial valuation, monitor liabilities and to undertake any asset/liability and other relevant studies as required.
- To monitor the performance and effectiveness of the investment managers and their compliance with the Statement of Investment Principles (Investment Strategy Statement).
- To set an annual budget for the operation of the Pension Fund and to monitor income and expenditure against budget.
- To act as Scheme Manager for the Pension Fund

5.2 Given these responsibilities, it is appropriate for the Committee to consider a regular quarterly update covering funding and investment matters, budget monitoring and scheme administration and governance.

6. FUNDING UPDATE

6.1 The Fund's actuary, Hymans Robertson, provides a quarterly update on the funding position of the Fund illustrating how the overall position has changed since the last actuarial valuation. The actuarial valuation as at 31st March 2016 set the contribution rates which have been applied from 1st April 2017. As at the end of June 2019, the funding level was 77.6% compared to 77% as at the end of March 2016. This represents a slight increase relative to the previous quarter (76.5%).

6.2 The funding level of 77.6% at 30th June 2019 is based on the position of the Fund having assets of £1,573m and liabilities of £2,027m, i.e. for every £1 of liabilities the Fund has the equivalent of 77.6p of assets. The monetary deficit remains high, increasing from £350m in March 2016 to £454m in June 2019. The liabilities are a summation of all the pension payments which have been accrued up to the valuation date in respect of all scheme members, pensioners, deferred members and active members. These will be paid over the remaining lifetime of all members, which could stretch out beyond 60 years. The actuary then calculates the contributions which would be required in order for the Fund to meet its liabilities in respect of benefits accruing and to recover any deficit which has arisen.

6.3 The progress of the funding level on both an ongoing and yield curve basis is shown in the Actuary's Funding and Risk Report at Appendix 1 to this report. The report also highlights the asset risks to which the Fund is exposed, providing a basic breakdown of the Fund's asset allocation along with returns of major asset classes since 31st March 2016.

7. GOVERNANCE UPDATE

7.1 MHCLG released a consultation on the LGPS fund valuation cycle in May 2019. The consultation asked respondents if the local fund valuation cycle for LGPS funds should be changed from triennial to quadrennial to align with the public sector scheme valuation cycles. It also asked respondents to consider proposed regulation changes connected to exit payments and credits. The Fund submitted a response to this consultation in July, recommending that local funding valuations continue to be carried out on a triennial basis, rather than switching to quadrennial.

7.2 Officers of the Fund provided individual responses to a governance survey issued by Hymans Robertson. The survey was commissioned by the LGPS Scheme Advisory Board and asked respondents to consider the governance of the LGPS and potential conflicts of interest between the pensions function of administering authorities and their host local authority. The survey focused on financial decision-making and the role of the s151; officers considered that a number of the suggestions represented good practice (e.g. approval of pension fund budgets by pensions committees) but recommended against radical change to existing structures.

7.3 The responses to the survey and Hymans Robertson's initial report are now under consideration by the Scheme Advisory Board. The Board has invited the Hymans Robertson project team to assist the Secretariat in taking forward the next stage of the good governance project. Two working groups are being established, one to focus on defining good governance outcomes and the guidance needed to clearly set them out and the other to focus on options for the independent assessment of outcomes and mechanisms to improve the delivery of those outcomes. Both groups will comprise a wide range of scheme stakeholders to ensure a full range of views and options are considered. The aim is for an options report to be ready for the Board's consideration when it meets in November. Any proposals agreed by the Board would be subject to a full stakeholder consultation before being put to MHCLG.

7.4 During the quarter, officers of the Fund also provided information and sought legal advice to feed into the Council's response to HM Treasury's consultation on restricting exit payments in the public sector. The proposed cap of £95,000 on exit payments includes strain cost payable on early release of pension; whilst there is no direct impact on the pension fund (as strain is payable by the employer), the outcome will impact active scheme members made redundant over the age of 55. The Council's response highlighted a number of issues with the proposed legislation. The consultation closed on 3rd July and the responses are currently being analysed by government.

8. INVESTMENT UPDATE

8.1 Appendix 2 to this report provides a manager performance update from the Fund's Investment consultants, Hymans Robertson. The report includes an analysis of quarterly, 1 year and 3 year performance against benchmark, as well as Hymans Robertson's current ratings for each manager.

9. RESPONSIBLE INVESTMENT UPDATE

9.1 The Pensions Committee has looked to increase the level of engagement with the underlying companies in which it invests. This includes taking a more proactive role in encouraging managers to take into consideration the voting recommendations of the Local Authority Pension Fund Forum (LAPFF). This section of the quarterly report therefore provides the Committee with an update on the work of the LAPFF and also voting recommendations and how managers have responded. In addition the update will include key topical issues concerning environmental and social governance issues in order to provide scope for discussion on these key issues.

9.2 The LAPFF Quarterly Engagement report is attached at Appendix 3 to this report, setting out LAPFF's engagement activity over the Quarter in relation to environmental, social and governance issues. Following the restructuring of its equity portfolio, the Fund no longer retains any segregated mandates and therefore has no direct holdings in the companies referenced. It does, however, retain exposure via its pooled passive funds to a large number of the companies LAPFF engages with.

9.3 During the quarter, Committee Chair Cllr Rob Chapman represented the LAPFF at ArcelorMittal's AGM. Addressing the company chair, Mr Mittal. Cllr Chapman welcomed progress made by the company during the year towards development of a strategy consistent with the goals of the Paris Agreement. He asked the company that scenario planning be developed to allow for a range of policy and climate positions including a 1.5 degree scenario and that Mr Mittal consider personally joining the Chairs of Rio Tinto and Royal Dutch Shell in the Energy Transitions Commission (ETC) which focusses on decarbonising hard-to-abate sectors.

9.4 Mr Mittal responded that the company now plans to join the ETC and that they are looking at scenarios including the 1.5 degree scenario. Since the AGM, ArcelorMittal has brought out its Climate Action Report which sets out the company's ambition to significantly reduce $CO2$ emissions globally and be carbon neutral in Europe by 2050.

9.5 The Fund is now engaging with its new pooled fund managers (BlackRock and the London CIV) to develop a new approach to voting and engagement which is practical to implement in a pooled fund context. This process commenced late in 2018; the Fund has begun a programme of specific engagement with LCIV to help drive the introduction of robust voting and engagement processes. The Fund is also working with other London Authorities on this project to help establish broad support and drive consensus-building.

10. RISK MONITORING

10.1 Quarterly risk monitoring for Q1 2019/20 is included at Appendix 5. The reports cover the key risks faced by the Fund across 3 categories – Investment & Funding, Admin & Comms, and Governance. The reports highlight key and new risks, as well as any that have changed status relative to their target during the quarter.

10.2 The most significant change to note is a decrease in the likelihood rating for the 'poor membership data' risk. Whilst the risk remains a high level risk, improvements to the Council's year end reporting have resulted in improvements to the data held.

11. BUDGET MONITORING

11.1 Budget Monitoring for Q1 2019/20 is presented at Appendix 6 to this report. The monitoring forecasts a reduced surplus on dealings with members relative to budget (£16.9m against a budgeted £20.9m). The key drivers behind this forecast reduction are transfers in and transfers out; the forecast for transfers in is significantly lower than budgeted (£5.4m against a budgeted £8.8m) whilst transfers out are forecast at £8.3m against a budget of £4.2m. It should be remembered that both items are entirely dependent on member decisions and are highly volatile as a result; these forecasts are likely to change significantly over the course of the year.

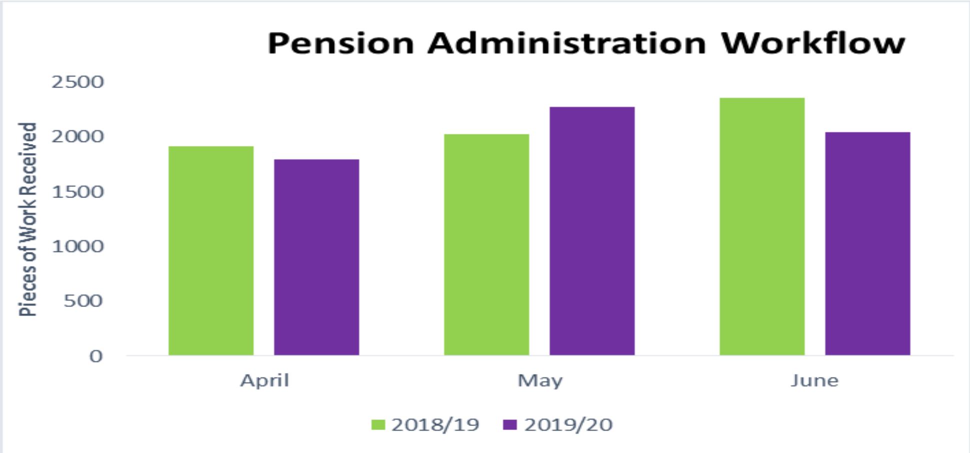
11.2 Certain items, most notably investment income and investment management fees, are still being forecast using the original budget estimates. Making a reliable estimate of investment costs and income is challenging at this early stage in the year, given that both are dependent to a certain extent on investment performance.

.

12. PENSION ADMINISTRATION

12.1 Pension Administration Management Performance

During Q1 2019/20, the administrators received a total of 6,111 new cases compared to 6,295 during Q1 in 2018/19. A comparison of the monthly workflow between Q1 2018/19 and the reporting quarter is set out below:-

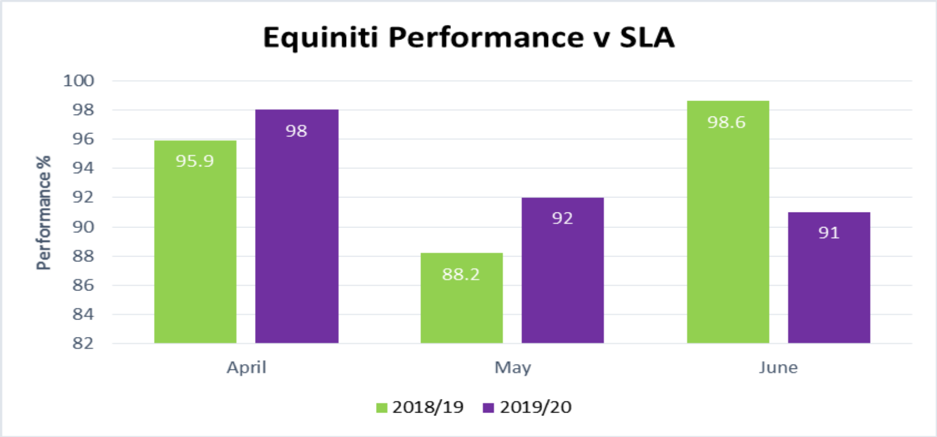


The average number of pieces of work received per month during Q1 2019/20 was 2,037, only a very slightly different to the average number during the same period in 2018/19 of 2,098.

Since the last report, there has been progress made on the payroll interface in terms of getting the correct format, and all 7 of the required files have now been completed. However, a recent test run has revealed that only 5 of the 7 are loadable to the administration system due to some further data issues. Work will continue on the development of these files, but due to prioritising the data cleanse work to produce the annual benefit statements in time for August, further developments and testing have thus far made slow progress. This will pick up after the year-end processes have been completed.

The performance of the external pension administrators is monitored by the administering authority's pension team at Hackney on a monthly basis. As reported in previous quarters, Equiniti remain working under a 'relaxed SLAs' regime due to the number of data queries taking priority over the business as usual (BAU).

Therefore performance against the service level agreement (SLA) is being monitored against priority work only (death grants, bank detail changes, pension into payment; i.e. all work relating to financials), and remains at an average of 93.6% for Q1 2019/20, compared to 94.2% for the same quarter last year. The administrator's monthly performance against the SLA during Q1 2019/20 and Q1 of 2018/19 is set out below:



The volume of manual processing is still significantly above the norm, as the Council is the largest employer in the Fund, it has the majority of the work.

It was hoped the introduction of the Council's new payroll system, and the development of a monthly interface, would help to significantly improve the flow of data form the employer to the administrator and thus correct the errors to member's records. However, there still remains some formatting and data collection issues on 2 of the interface files and until these are rectified the interface testing cannot progress.

As the production of the 2019 annual benefit statements (ABSs) is taking priority at present, the work on the interface has been suspended until the ABS programme of work is completed.

At the time of writing this report (August 2019), Equiniti have confirmed the deferred benefit statements were dispatched on 20 August, and they expect to issue c5,800 active benefit statements on 30 August 2019. Members who will not be receiving an ABS by end of August will be receiving an apology letter, and once data cleansing is completed on the remaining active records, it is anticipated a further c500 statements will be issued by the end of October 2019.

12.2 New Starters and Opt-Outs

	Total Active Membership at end of Quarter	Total Opt Outs for Quarter
Q1 2019/20	6,715	113
Q1 2018/19	6,920	115

The administering authority's in-house pension administration team facilitated at weekly induction sessions for 135 new employees during Q1 2019/20. These sessions continue to receive very positive feedback with respondents rating the presentations as 'Very Good' or 'Excellent', and those who attended the sessions have said they now have a greater understanding of the benefits of being in the scheme.

The number of employees who decided to opt-out in Q1 2019/20 remain in-line with previous months/quarters, and still average around 100 per month.

12.3 Ill Health Pension Benefits.

The release of ill health benefits fall into 2 main categories, being those for deferred and active members. The administration team at Hackney process all requests for the release of deferred members' benefits on the grounds of ill health, as well as assisting the Council's Human Resources team with the process for the release of active members' benefits on the grounds of ill health.

Deferred members' ill health benefits are released for life and are based on the benefits accrued to the date of leaving employment, with the addition of pension increase, but they are not enhanced by the previous employer.

Active members' ill health pensions are released on one of three tiers:

- Tier 1 - the pension benefits are fully enhanced to the member's normal retirement date and is typically only paid to those with very serious health conditions or life limiting health problems – paid for life, no review

- Tier 2 – the pension benefits are enhanced by 25% of the years left to the member's normal retirement date - paid for life, no review

- Tier 3 - the pension benefits accrued to date of leaving employment - paid for a maximum of 3 years and a review is undertaken once the pension has been in payment for 18months.

For tier 3, a scheme member's prognosis is that whilst they are unable to fulfil their current role on medical grounds to retirement, they may be capable of undertaking some form of employment in the relatively near future. However should the member's health deteriorate further, there is provision under the regulations for their benefits to be uplifted from tier 3 to tier 2, if the former employer agrees that their health condition meets the qualifying criteria for the increase.

The table sets out the number of cases that have been processed during Q1 of 2019/20, compared to the same period in the previous year:-

DEFERRED MEMBER'S ILL HEALTH RETIREMENT CASES					
	CASES RECEIVED	SUCCESSFUL	UNSUCCESSFUL	ONGOING	WITHDRAWN
Q1 2019/20	2	0	0	1	1
Q1 2018/19	2	0	0	2	0

ACTIVE MEMBER'S ILL HEALTH RETIREMENT CASES					
	CASES RECEIVED	BENEFITS RELEASED ON TIER 1	BENEFITS RELEASED ON TIER 2	BENEFITS RELEASED ON TIER 3	UNSUCCESSFUL
Q1 2019/20	2	2	0	0	0
Q1 2018/19	1	1	0	0	0

12.4 **Internal Disputes Resolution Procedure (IDRP)**
This is the procedure used by the Fund for dealing with appeals from members both active and deferred. The majority of the appeals are in regard to either disputes around

scheme membership or the non-release of ill health benefits. The process is in 2 stages:-

- Stage 1 IDRP's are reviewed and determinations made by a senior technical specialist at the Fund's pension administrators, Equiniti.

- Stage 2 IDRP's are determined by the Group Director, Finance & Corporate Resources taking external specialist technical advice from the Fund's benefits consultants.

There were no cases at Stage 1 , however there were 2 cases submitted under Stage 2 of the IDRP and they were concluded as follows:-

1) Pensioner member appeal against the administrators request to repay to the Fund an overpaid lump sum increase made to the member in error.
   Decision - Appeal at Stage 2 not upheld as the Fund had made the correct steps to correct the error and recover the overpayment as soon as it was discovered. However, there was evidence of mal-administration and a small compensatory award was offered to the member.

2) Dependant member appeal against non-award of cohabiting partner pension.
   Decision – Appeal at Stage 2 not upheld as deceased member's pension was in payment before the regulation change, so no cohabiting partner pension can be awarded. However, there was evidence of mal-administration and a small compensatory award was offered to the member.

12.5 **Other work undertaken in Q1 2019/20**

Third Party Administration Implementation update

Good progress is still being made over the last quarter on finalising the delivery of the new contract specification. At the time of writing, (August 2019) there are now only 3 points of delivery on the new service specification that remain outstanding, and the agreed joint effort to get these delivered to the expected standard is proving productive and good progress is being made. Performance rectification and resolution planning has been agreed by both parties and added to the new contract

New & Ceasing Employers

During Q1, the Fund has admitted 1 new admitted body; no employer contracts ceased during this period: breakdown is as follows:

Employer	Date Joined	Date Ceased	Deficit upon Ceasing Y/N
PJ Naylor – Grasmere School cleaning contract	01/04/2019	-	-

Redundancy Exercises for Departmental Budget Purposes

In Q1 of 2019/20, the pensions' administration team at Hackney have received a total of 114 redundancy estimate requests, compared to 105 for Q4 2018/19; some of these are for members over the age of 55 who will have pension released. Of the 114 requests, only 11 employees received final paperwork and left the organisation in this quarter.

Pre-retirement workshops

The in-house Pensions Team have set up a series of 'Pre-retirement workshops' in conjunction with a company called Affinity Connect. Affinity provide the facilitator, learning material and bookings for the seminars/workshops free of charge to the Fund and are aimed at members who are thinking of retiring within the next 2 to 5 years. The first workshop this year was held on 8 April 2019 and the feedback from the session has been very positive. Further sessions are set for 8 July, 14 October and 13 January 2020.

13. REPORTING BREACHES

13.1 The breaches register for Q1 2019/20 is attached at Appendix 4 to this report. There were 5 breaches during the period, all relating to contributions and all rated green; none are considered reportable.

Ian Williams
Group Director of Finance & Corporate Resources

Appendices:

Appendix 1 –Funding & Risk Report (Hymans Robertson – Actuary)
Appendix 2 – Manager Performance Report (Hymans Robertson – Investment Consultant)
Appendix 3 – LAPFF Quarterly Engagement Report
Appendix 4 – Breaches Register
Appendix 5 – Risk Reporting
Appendix 6 – Budget Monitoring

Report Originating Officers: Rachel Cowburn ☎020-8356 2630
Financial considerations: Michael Honeysett ☎020-8356 3332
Comments of the Director of Legal and Governance: Sean Eratt ☎020-8356 6012