

## REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES

<b>Review of the Work of the Pensions Committee</b>  <b>Pensions Board</b> <b>18<sup>th</sup> November 2019</b>	<b>Classification</b> <b>PUBLIC</b>	<b>Enclosures</b> <b>None</b> <b>AGENDA ITEM NO.</b>
	<b>Ward(s) affected</b>  <b>ALL</b>	

### 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 March 2019 to September 2019 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 2020.

### 2. → **RECOMMENDATIONS¶**

- 2.1 The Pensions Board is recommended to:
- Note the report

### 3. **RELATED DECISIONS¶**

- 3.1 Pensions Committee (10th September 2019)  
3.2 Pensions Committee (25th June 2019)  
3.3 Pensions Committee (26th March 2019)

### 4. **COMMENTS OF THE GROUP DIRECTOR OF FINANCE & CORPORATE RESOURCES¶**

- 4.1 Understanding the remit of and decisions taken by the Pensions Committee helps the Pension 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.
- 4.2 There are no immediate financial implications arising from this report.

### 5. **COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE 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 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.
- 5.3 Taking into account the role of the Pension 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.

## 6. **BACKGROUND TO THE REPORT**

- 6.1 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. The links below provide members with access to the Pensions Committee papers from the March, June and September 2019 meetings.
- <http://mginternet.hackney.gov.uk/ieListDocuments.aspx?CId=499&MId=4438>  
<http://mginternet.hackney.gov.uk/ieListDocuments.aspx?CId=499&MId=4704>  
<http://mginternet.hackney.gov.uk/ieListDocuments.aspx?CId=499&MId=4785>
- 6.2 At its March, June and September 2019 meetings, the Pensions Committee considered reports covering a wide range of issues including the Fund's triennial valuation, the annual report and accounts, exposure to fossil fuels and updates from the London CIV. 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.
- 6.3 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 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 a number of issues covered by statute. Of particular relevance to the Board are the sections on administration performance and reporting breaches.
- 6.4 One key item from the March 2019 meeting is a report on the 2019 actuarial valuation process. The report covers measures discussed with the Fund actuary to address potential timetabling issues resulting from late data provision and summarises the latest developments with regards to the use of the LGPS Scheme Advisory Board and Treasury Cost Cap mechanisms. It summarises the approach taken by the actuary to assist the Fund in setting appropriate financial assumptions for the valuation, setting out how different discount rates are modelled. It also describes how the 2019 valuation was expected to be affected by the LGPS Scheme Advisory Board cost cap mechanism.
- 6.5 Cost control mechanisms are in place across all the public service pension schemes and it was widely expected that reductions in member costs would lead to these being triggered prior to the 2019 valuation. For the LGPS, however, the process was paused as the result of the McCloud court case, and remains on hold. Updated

information on this issue can be found in the Actuarial Valuation and Investment Strategy update report included as part of the Board's agenda.

- 6.6 The Committee also considered a report on the implementation of the Fund's carbon reduction target. The report provides an overview of the introduction of the target in 2016/17, considers how changes to the Fund's asset allocation since 2016/17 have helped to reduce exposure and sets out plans for a formal review of progress during 2019. The Fund's exposure has now been formally reassessed by Trucost, who carried out the initial audit; the results are due to be considered at a special meeting of the Pensions Committee on 20th November.
- 6.7 At its June 2019 meeting, the Committee considered the Pension Fund budget for 2019/20, which sets income and expenditure from various sources and the impact on these for the Pension Fund in the next financial year. Performance against budget is recorded in the quarterly update report at each meeting of the Pensions Committee.
- 6.8 At the same meeting, the Committee also reviewed a report on the progress of the Fund's data improvement project. As this is a key area of interest for the Fund, an updated report including information on the 2018/19 Annual Benefit Statements is included on the Pensions Boards agenda.
- 6.9 A key item from the September 2019 meeting is the consideration of the Pension Fund annual report and accounts for 2018/19. The report and accounts sets out the financial position of the Pension Fund as at 31st March 2019 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.
- 6.10 The Fund's auditors, Mazars, issued an unqualified opinion, without modification, on the Pension Fund financial statements included within the Council's accounts. A draft certificate has been issued; the certificate cannot be formally issued until the auditors have completed their review of the annual report, which will be carried out in autumn 2019. This final review has been delayed to allow the Fund to include additional information in relation to pooling, which is required to comply with new guidance for 2018/19. The information required has now been supplied by the London CIV.

## **7. UPCOMING WORK**

- 7.1 Over the coming months, the focus of the Committee will move towards the completion of the 2019 valuation and subsequent investment strategy review. The Committee must approve the actuary's final valuation report and rates and adjustments certificate no later than 31st March 2020. The development of the Fund's investment strategy will take place alongside the final stages of the valuation. It is anticipated that the Committee will first review its investment beliefs and the strategy setting process via a workshop in early 2020, before making formal decisions around the investment strategy at its meetings in March and June 2020.
- 7.2 A special meeting of the Pensions Committee has been arranged for 20th November for the Committee to consider the results of an updated carbon risk audit carried out over the summer. The audit was commissioned to review performance against the Fund's target to reduce exposure to carbon reserves by 50% by 2022. With a full valuation cycle having passed since the introduction of the target, the Committee requested an interim assessment to review performance and assist in decision making for the Fund's new investment strategy.
- 7.3 The Committee will also be considering a number of policy updates over the coming months. Updates are due to the Pensions Administration Strategy (PAS) and

Communications Policy in March 2020, as well as to the Business Plan at the June 2020 meeting.

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