Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES		
Actuarial Valuation & Investment Strategy Setting – Progress Update **Pensions Board** **18th November 2019**	**Classification** **PUBLIC** **Ward(s) affected** **ALL**	**Enclosures** **None** **AGENDA ITEM NO.**

1. INTRODUCTION ¶

1.1 This report provides the Board with an introduction to the 2019 valuation process and sets out progress to date and the expected timetable. It also provides an overview of the process the Fund will follow to set its investment strategy once the outcome of the valuation is known.

2. RECOMMENDATIONS¶

2.1 The Pensions Board is recommended to:

- Note the report

3. RELATED DECISIONS¶

3.1 Pensions Committee 26th March 2019 - Pension Fund Actuarial Valuation 2019 - Introduction

3.2 Pensions Committee 29th March 2017 - Pension Fund Actuarial Valuation 2016 – Valuation Report

4. COMMENTS OF THE GROUP DIRECTOR OF FINANCE & 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 Fund's financial position. Given the relationship between the Pension Fund and the Council, the inputs to the triennial valuation can therefore directly impact on 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.

4.3 There are no direct 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 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. TRIENNIAL VALUATION UPDATE¶

6.1 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 2016, which showed an improvement in the funding level from 70% to 77% and set the contribution rates for the three years commencing 1st April 2017. The funding position of 77% was based on the Fund having assets of £1,172.3m and liabilities of £1,577.1m, with a monetary deficit amount of £404.9m

6.2 The Fund's actuary, Hymans Robertson, is now undertaking the formal valuation as at 31st March 2019. The Fund would generally have expected to provide valuation data to the actuary by August 2019; however, the provision of data has been delayed by late receipt of employer data from the Council and the subsequent need to undertake a significant data cleansing exercise.

6.3 A full cut of data was submitted by Equiniti in mid October. This has now been checked by Hymans Robertson and in general is considered to be of high quality. This represents a significant improvement relative to 2016, when although the Fund was able to submit data in line with the original timetable, issues with data quality meant that a significant period of revision was required to ensure the data was fit for purpose. The higher quality of the 2019 data has resulted from the receipt of improved employer data from the Council, and significant data cleansing work undertaken by both Equiniti and the in house pensions administration team.

6.4 Equiniti are now working with Hymans Robertson to resolve a small number of outstanding queries. At present, it is estimated that this work will be completed in time for initial whole fund results to be considered at the December 2019 Pensions Committee meeting. Whilst the delay to data submission has compressed the valuation timetable significantly, it is expected that employers will receive results early in the new year, permitting a suitable period of consultation prior to approval of the final valuation report by 31st March 2020.

6.5 A further verbal update on progress will be provided at the Pensions Board meeting.

7. APPROACH TO INVESTMENT STRATEGY SETTING¶

7.1 Once the results of the whole fund valuation are known, the Fund will commence a formal review of its investment strategy to ensure that its investment approach remains appropriate to help close the deficit and achieve the funding target.

7.2 The updated strategy will be developed through a consultative process between officers, Members and the Fund's advisers; the Pension Board will have oversight of the process and are encouraged to attend Committee where possible. A consultation meeting is being considered for early in the new year to allow the Committee to consider its investment beliefs in addition to changes in the funding level following the 2019 valuation, the economic outlook over the period and the key risks affecting both current and potential future strategies.

7.3 The Fund's new investment strategy will need to be set out in an updated Investment Strategy Statement (ISS). The ISS must be updated at least every 3 years, with the last formal update taking place in 2017.

7.4 The LGPS (Management and Investment of funds) Regulations 2016 prescribe that certain items must be included within the ISS. These include:

- a requirement to invest fund money in a wide variety of investments;
- the authority's assessment of the suitability of particular investments and types of investments;
- the authority's approach to risk, including the ways in which risks are to be assessed and managed;
- the authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
- the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments;
- the authority's policy on the exercise of the rights (including voting rights) attaching to investments

7.5 In setting the investment strategy, the Committee will consider the Fund's approach to each of the points above. In addition to considering the Fund's strategic asset allocation, approach to risk and approach to pooling, the Committee will also give formal consideration to the Fund's Responsible Investment policy, considering both the active stewardship of assets and how ESG factors can be taken into account in investment decision making. The Fund has a formal target in place to reduce its exposure to carbon reserves; consideration of this target will also form a formal part of the investment strategy.

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