Hackney

Title of Report	Quarterly Update Report
For Consideration By	Pensions Committee
Meeting Date	30 March 2023
Classification	Public
Ward(s) Affected	All
Group Director	Ian Williams, Group Director Finance & Corporate Resources

1. **Introduction**

1.1. This report is an update on key quarterly performance measures, including an update on the funding position, investment performance, responsible investment, administration performance and reporting of breaches. It provides the Committee with information on the position of the Fund between October and December 2022.

2. **Recommendations**

2.1. The Pensions Committee is recommended to:

- **Note the report**

3. **Related Decisions**

3.1. Pensions Committee (Urgency Delegation March 2020) – 2019 Final Valuation Report and Funding Strategy Statement

3.2. Pensions Committee 23rd November 2021 –Investment Strategy Statement

3.3. Pensions Committee January 2022 – Pension Administration Strategy (PAS)

3.4. Pensions Committee 30 March 2023 - Actuarial Valuation 2022 - Final Valuation Report and Funding Strategy Statement

4. **Comments of the Group Director of Finance and 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. Reporting on administration is included within the quarterly update for the 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.

4.4. 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, Democratic and Electoral Services

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 the 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. In the last quarterly update report it was stated that the provision of the quarterly funding update will resume following the sign off of the 2022 valuation. The 2022 valuation is due to be signed off at the Pensions

Committee meeting on 30 March 2023; an updated position based on the new assumptions will now be brought to the June 2023 Committee.

7. **Investment Update**

7.1. Appendix 1 to this report provides a manager performance update from Redington, the Fund's new investment consultants. The report includes an analysis of the last quarter, 1 year and 3 year performance against benchmark, as well as performance since inception.

7.2. The report shows that most of the Fund's managers delivered positive returns over the quarter to December 2022 , with the exception of the LCIV Sustainable Equity Fund and the two property funds managed by Columbia Threadneedle. The Sustainable Equity Fund returned -0.5%, underperforming the benchmark by 2.3%. Equity markets rebounded over Q4 however the Fund did not benefit from this primarily due to stock selection issues.

7.3. The Fund's other equity mandates delivered performance at or above their benchmarks. Of particular note is the LCIV GAGPA fund which has suffered poor performance since its inception in September 2021. This was a more positive quarter as performance continued to stabilise in the fund following sizeable drawdowns earlier in 2022. These drawdowns continue to take a toll on longer term performance but the gradual shift of the portfolio away from the most aggressively valued holdings, and into less volatile but still growth oriented companies is starting to reap benefits.

7.4. Also of note is the LCIV Diversified Growth Fund which delivered a return of 1.5% over the quarter. Committee should note that the performance of the LCIV Diversified Growth Fund managed by Baillie Guifford, in which the Hackney Fund is invested is also being closely monitored by the LCIV, following a deep dive review of the Fund's performance.

7.5. This review has concluded that the fund's performance to date has not aligned with expectations and that there are concerns about the manager's ability to deliver the long-term absolute and relative performance targets. As a result of this, the fund's monitoring status has been downgraded from normal to enhanced. This status will be reviewed in summer 2023 following engagement with Baillie Gifford and further review of the performance of the fund.

7.6. The Columbia Threadneedle Pension Property (TPEN) and Low Carbon Property funds delivered returns of -13.5% and -8.9% over the quarter. These returns, although disappointing, are in line with the benchmark, as the UK property sector saw a significant reduction in asset valuations, with transactions during Q4 at their lowest level since the global financial crisis. The fallout from the September mini-budget saw many property funds, including TPEN, gating or deferring redemptions as many corporate DB schemes struggled for liquidity during the LDI crisis.

7.7. The investment update will be covered in detail by Redington during the 30 March Committee meeting. A Market Update for Q1 2023 is also available at Appendix 2 to this report - this will also be covered during the session.

8. Investment Strategy Implementation Update

8.1. As part of the agenda for the 30 March Pensions Committee meeting, the Committee are asked to consider initial proposals for a review of the Fund's Strategic Asset Allocation (SAA) following the 2022 Actuarial Valuation. It is hoped that the high level review will be completed by Q2 2023/24, after which the Committee will consider detailed implementation plans. Once implementation is underway, updates will be provided as part of this report.

8.2. During the quarter, further drawdowns have been financed on the LCIV infrastructure and private debt mandates in line with the agreed strategy and fund manager requests for financing. The current position with regards to undrawn capital commitments is set out in the table below:

	Capital Commitment	Funds drawn as at December 2022	Undrawn commitment
Permira	£95m	£78m	£17m
Churchill	£71m	£66m	£5m
LCIV Private Debt	£180m	£106m	£74m
LCIV Renewable Infrastructure	£90m	£28m	£62m
Total			£166m

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.

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. As the Committee will recognise, 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. As can be seen from the LAPFF Quarterly Update Report, much of the engagement with companies has continued to focus on human rights, social and climate change issues. LAPFF continue to issue voting alerts in respect of both climate change issues and wider social/human rights issues.

9.4. The Committee has previously requested that the Fund set a new climate change target and at the January 2023 meeting, the Committee considered options for setting relevant climate change targets with a view to completing the exercise by end March 2023. Detailed proposals for new targets have been developed, and these have been considered by the Committee's RI Working Group. The proposals are now due to be considered by the Committee as part of the agenda for the 30 March meeting.

10. <u>Pensions Administration</u>

10.1. Pension Administration Management Performance

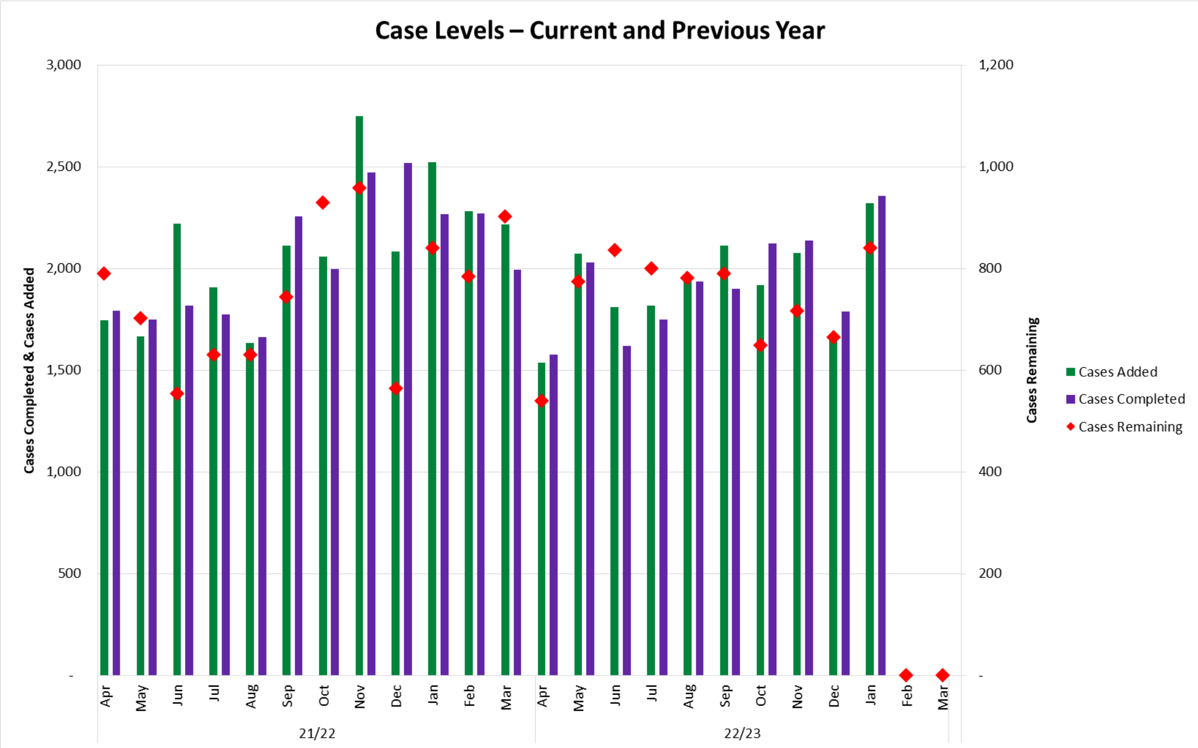
The following sections provide information on the numbers of cases being received and processed by Equiniti, as well as their performance against the Fund's service level agreement standards (SLAs).

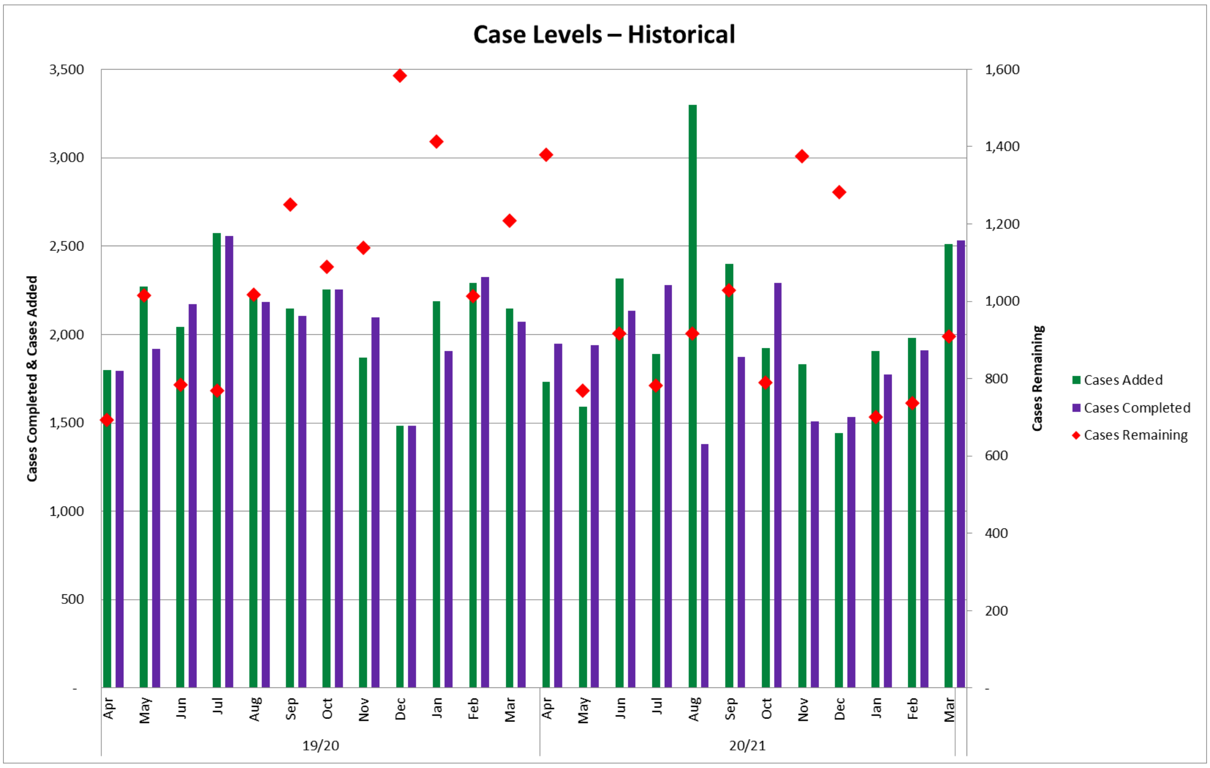
Case Levels

The graphs below show historical cases levels received and processed by Equiniti dating back to April 2019. For each month, the graph shows:

- "cases added" - the number cases received by Equiniti during the month ("cases added") and
- "cases completed" - the number of cases completed by Equiniti during the month ("cases completed")
- "cases remaining" - the numbers of cases that are outstanding and therefore waiting to be processed by Equiniti at the end of each month ("cases remaining")

For the period December 2022 to January 2023, the number of cases received in December was less than all months in the previous reporting period and the number of cases received in January was higher than all months in the previous reporting period. This is likely to be a result of office closures and annual leave resulting in some cases that usually would have been added in December being added in January. However, as an average the number of cases added in this reporting period is consistent with the number of cases added in the previous reporting period. The same trend is true for the number of cases completed by Equiniti and as an average is consistent with the last period reported.





SLA and KPI monitoring

The contract with Equiniti includes a large number of service level agreement standards (SLAs). The most significant of these for the Fund, are categorised as being key performance indicators (KPIs) and these are monitored closely. The KPIs include target timescales for processes such as:

- providing new members with information about the scheme
- notifying retiring members of the amount of retirement benefits and paying them their tax-free cash lump sum
- informing members who leave the scheme before retirement of their deferred benefit entitlement.

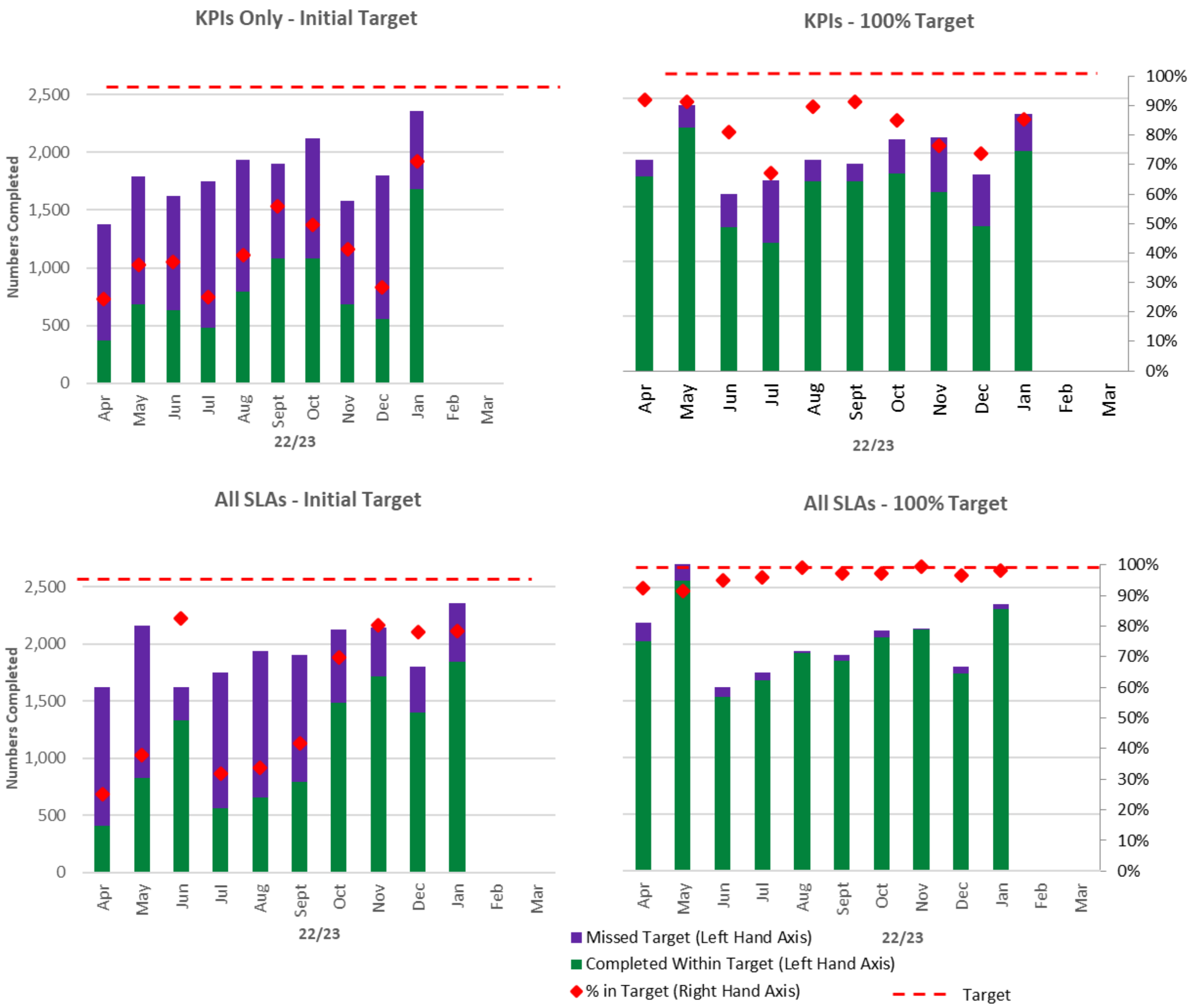
For most SLAs there are two targets:

- an initial target – this is the initial timescale within which the majority of cases must be processed (typically 95% is the target to be processed by the initial target period)
- the 100% target – this is a later timescale by which it is expected that 100% of cases will be processed by.

The following graphs show Equiniti's performance against the various targets since April 2022. Each graph illustrates the numbers of cases completed within the target (green) and the number outstanding (purple), as well as the percentage of cases completed within the target (red diamond which relates to the right-hand axis). The four graphs are as follows:

- KPIs Only – Initial Target: this shows the performance against **only** the key performance indicators based on the initial target where it is expected that (in the main) 95% of cases will be processed.
- KPIs Only – 100% Target: this shows the performance against **only** the key performance indicators based on the 100% target where it is expected that all cases will be processed.
- All SLAs – Initial Target: this shows the performance against **all** service level agreement standards based on the initial target where it is expected that (in the main) 95% of cases will be processed.
- All SLAs – 100% Target: this shows the performance against **all** service level agreement standards based on the 100% target where it is expected that all cases will be processed.

For the period December to January, Equiniti have continued to perform close to the 100% target in the SLA measures. The 100% target for KPI measures for the period as an average is consistent with the average for the previous reporting period. The initial target measures for both SLAs and KPIs were also similar on average to the previous reporting period. During this financial year however, Equiniti's performance against the initial target measures (both SLAs and KPIs) has been inconsistent and Officers are currently investigating with Equiniti the reasons for this.



There also appears to be some inconsistency with Equiniti's reporting against legal timeframes on key procedures relating to disclosure legislation, such as new joiners, deferred benefits and retirements. The missing of legal timeframes constitutes a breach. In accordance with the Pension Regulator's guidance and the Fund's Breaches procedure all breaches even if determined not to be of material significance should be recorded on the Fund's breaches log. Officers are also investigating this issue of breaches with Equiniti before determining next steps. The January client report suggests that 55.42% of new joiners, deferred benefits, retirement benefits, notification of transfer out values and notification of dependent benefits were processed within the required legal timeframes.

10.2. **Ill Health Pension Benefits**

The release of ill health benefits fall into two main categories, being those for deferred and active members. The administering authority team at Hackney process all requests for the release of deferred members' benefits. Deferred members' ill health benefits are released for life, are based on the benefits accrued to the date of leaving employment, (with the addition of pension increases whilst deferred), but they are not enhanced by the previous employer.

The team also assist the Council's HR team with the process for requests to release active members' benefits on the grounds of ill health retirement.

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 – paid for life, no review
- Tier 2 – the pension benefits are enhanced by 25% - 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 undertaken when pension has been in payment for 18 months.

The applications for active ill health retirements is higher in volume compared to the same period in the previous year and this is something that will be monitored in later quarters to see if this is a trend or a one off spike:

DEFERRED MEMBER'S ILL HEALTH RETIREMENT					
	CASES RECEIVED	SUCCESSFUL	UNSUCCESSFUL	ONGOING	WITHDRAWN
Q3 2022/23	0	1	0	2	0
Q3 2021/22	1	0	1	0	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
Q3 2022/23	8	6	1	0	1
Q3 2021/22	1	1	0	0	0

10.3. **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 two stages:-

- Stage 1 IDRP's are reviewed and determinations made either by the Pensions Manager or 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.

Stage 1 – Three applications were received in this quarter. One was against the former Employer for an ill health decision which was upheld. The other two were made against the administering authority- one in relation to an historic pension record mix up/missing record which was not upheld and one was regarding an historic transfer out- at the time of writing the investigation is still ongoing.

Stage 2 – None were received in this reporting period

10.4. **Other work undertaken**

Third Party Administration Contract

The previously agreed extension of the Fund's third party administration services contract with Equiniti's for 3 years from 1st January 2023 was agreed and signed on 28 February 2023. The Fund is now working with Equiniti on the delivery of the software upgrade and a project implementation plan is being developed.

Employer Forum

The Annual Employer Forum was held on 22 February and was in person this year for the first time since 2020. A number of Employers and payroll providers were represented, and speakers including the Fund's Actuary's on the valuation results, Equiniti on year end processing and Aon on a round up of pension "hot topics". Feedback from the day was very positive from those that attended but the Fund is now thinking of ways to reach some of those Employers who do not attend these annual events, to see how they can be encouraged to participate.

Tax Briefing sessions

Recognising the need for greater awareness on pension tax issues amongst its scheme members, the Fund has arranged for Aon to come and present across three different sessions to active members of the pension scheme who may be in danger, either now or in the future, of breaching their annual allowance for pension saving purposes. Interest has been high with around 110 members signed up to attend.

Year End

There is a legal timescale for issuing annual benefit statements to all active and deferred members of the scheme, which is 31 August. This is a major exercise carried out by Equiniti, but it relies on all the Fund's employers providing them with pensions information relating to the scheme members in a timely manner. Preparations are already underway and requests have already gone out requesting year end data from the Fund's employers that are still required to submit a year end return.

A further update on the benefit statement work will be provided at the next meeting.

McCloud Programme Update

The Public Service Pension and Judicial Offices Act 2022 enables the Department of Levelling up, Housing and Communities (DLUHC) to make the regulations needed to implement the McCloud remedy within the LGPS.

Draft LGPS "McCloud" regulations and DLUHC's response to its 2020 consultation were initially expected before the 2022 Summer Recess. This timetable has now been pushed out to early 2023 for DLUHC's consultation response and May 2023 for draft regulations. It is expected that the draft regulations will consist of two parts:

- The technical consultation on the remedy regulations
- Seeking views on issues not covered by the 2020 consultation, including interest, compensation, and Teacher's excess pension which it is proposed will become pensionable in the LGPS

Furthermore, on 15 December 2022 HM Treasury issued Directions in relation to the Public Services Pensions and Judicial Offices Act 2022 (PSPJOA), setting out how certain powers in the PSPJOA must be exercised. Part 4 of the Treasury directions cover the LGPS, and the directions include powers to pay compensation, compensable losses, interest payments and compensation applications

Following the consultation on the draft regulations it is expected that the regulations will now be made shortly before they come into effect, on 1 October 2023.

Workstreams

The general Programme update on the specific workstreams is as follows:

- Data: The most recent data meeting was held on 10 January 2023. It was determined that many actions are still on hold due to the delay in the regulatory timetable, and there were no new risks to be added to the risk log.
- Communications: The Communications workstream is up to date based on the latest regulatory position, with most of the actions such as reviewing BAU communications deferred until regulations are issued by DLUHC.
- Finance and Governance: These workstreams' actions are up to date, and meetings will be scheduled when required to ensure future planning of programme deliverables.
- Benefit Rectification: this workstream is progressing as expected and the last meeting took place on 14 December 2022.
- Ongoing Administration: Planning work is still required for this workstream to ensure that all programme deliverables are achieved as set out in the Programme Charter.
- Specialist Cases: For this workstream, an initial workshop was held in 2021, and it has been agreed within the project team to put this workstream on hold until after the draft regulations have been published, with the expectation of guidance for certain types of cases.

Risks for all workstreams continue to be actively managed within the programme and these are reviewed regularly by the Programme Management Group (PMG). Key risks continue to include the impact of the delay in the regulatory timetable and the Compendia software migration.

Whilst the overall project is running behind the original schedule, principally due to the slower than expected progress with the Ongoing Administration workstream, this needs to be considered in the context of the regulatory timetable, which has continued to change. The biggest risk for the programme at the present time is the software migration and Equiniti's plan to support this.

11. <u>Reporting Breaches</u>

11.1. There have been no reportable breaches in the last quarter.

Appendices:

Appendix 1 – Investment Performance Report (Redington – Investment Consultant)

Appendix 2 - Market Update (Redington - Investment Consultant

Appendix 3 - LAPFF Quarterly Engagement Report

Background documents
None

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