Title of Report	Quarterly Update Report
For Consideration By	Pensions Committee
Meeting Date	7 February 2024
Classification	Public
Ward(s) Affected	All
Group Director	Jackie Moylan-Interim Group Director, Finance

1. Introduction

1.1. This report is an update on performance across the following key areas since the last meeting:

- Governance
- Funding and any changes in participating employers
- Investment, including an update on the London CIV and implementation of the Fund's Responsible Investment policy
- Pension administration and communications update

It provides the Committee with the most recent information on the position of the Fund. Funding and investment information is provided for Q2 2023/24 as this is the most recent available. Information on Governance and Pensions administration is available up to 31st December 2023.

2. Recommendations

2.1. **The Pensions Committee is recommended to note the report.**

3. Related Decisions

3.1. Various previous policies and strategies agreed at Pensions Committees.

4. Comments of the Interim Group Director of Finance

4.1. The Pensions Committee has delegated responsibility for management of the Pension Fund. Whilst there are no direct financial 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.

4.2. The report includes monitoring the performance of the Fund's investment managers which is essential to ensure that managers are achieving performance against set benchmarks and targets. The investment performance of the Fund, together with change in the liabilities (as set out in the quarterly funding updates) are key factors in the actuarial valuation process and therefore directly impact on the contributions that the employers are required to make into the Pension Fund.

4.3. Monitoring of key administration, communication and governance targets ensures that the Fund monies are being used appropriately including ensuring that the Fund is achieving value for money.

5. <u>Comments of the Acting Director of Legal, Democratic and Electoral Services</u>

5.1. The Council's Constitution gives the Pensions Committee responsibility for various specified functions relating to management of the Council's Pension Fund, as reflected in the Committee's Terms of Reference. The Committee has delegated responsibility:

- To act as Trustees of the Council's Pension Fund, consider pension matters and meet the obligations and duties of the Council under the Superannuation Act 1972, the Public Service Pensions Act 2013, and the various pension legislation.
- To act as Scheme Manager for the Pension Fund.
- To set the overall strategic objectives for the Pension Fund, having taken appropriate expert advice, and to develop a medium term plan to deliver the objectives.

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

6. <u>Governance Update</u>

6.1. Governance strategy and policy reviews

No current updates to main strategies and policies.

6.2. Other Hackney Pension Fund governance matters

Changes to the Pensions Committee, Pensions Board and Senior Officers since the last report:

- Senior Officers – Rachel Cowburn leaves the Fund in March 2024, to be replaced by Michael Honeysett on an interim basis.

Changes in staffing/resourcing - The following key pension team staff and supplier changes occurred since the last report:

- Staff Joiners: None
- Staff Leavers: None
- Supplier update: Hymans Robertson have been appointed as Benefits and Governance consultants to the Fund, and have also been reappointed as the Fund Actuary. The appointments took place through a procurement exercise which concluded in November 2023.

6.3. *Knowledge and Skills Policy implementation*

The following training has taken place since the last report.

- The Pensions Committee undertook training in Administration on 16 November 2023. This was a half day workshop which gave the Pensions Committee an overview of the key role of the administration service and how the service is delivered.
- The Committee also undertook training on Impact Investing and Property on 15 January 2024. This was a 2 hour session providing a refresher on investment in the LGPS, followed by a more detailed look at impact investing, investment in housing and the Stewardship Code.
- Both training sessions were also attended by Officers.

The training was well attended and in accordance with the Fund's policy requirements.

6.4. Cyber Security

Cyber threats continue to be a major risk for organisations and are increasingly being recognised as a threat to pension schemes. In its guidance issued in April 2018 and in the draft new Code of Practice, the Pensions Regulator (TPR) explains that pension schemes should take appropriate measures to protect against this risk, including assuring themselves that all third-party providers have put sufficient controls in place in relation to cyber security. The Fund has an ongoing programme of work to ensure it is managing its cyber risk. The current key areas of focus include:

- A Fund specific Incident Response Plan is currently being drafted which will dovetail with the Council's Business Continuity Plan. This will provide a set of guidelines for the effective management of a cyber related incident.
- Cyber induction training for all newer Pension Committee and Board members is due to take place later this year as part of the Fund's training requirements set out in its Knowledge and Skills policy.

- The next supplier assessments to assess cyber resilience will be in relation to Hymans Robertson as Fund actuary, the London CIV as the Fund's asset pool and Northern Trust as its custodian.

There have been no new cyber security related incidents since the last meeting

Other governance related developments and news

6.5. Scheme Advisory Board (SAB) update

The SAB met on 4 December 2023 and a summary note of the meeting can be found here: https://www.lgpsboard.org/index.php/about-the-board/board-updates. The main areas covered in the meeting were:

- The Autumn Statement
- Surplus Statement
- Board budget and workplan
- HM Treasury Cost Control Mechanism
- Annual Reporting guidance
- Sharia law and the LGPS

6.6. SAB commissioned report on the LGPS and Sharia law

The Board commissioned Mufti Faraz Adam of Amanah Associates, an Islamic finance expert, to produce a report on Sharia law and the LGPS to address any possible legal risk for scheme employers and to ensure the scheme is as inclusive as possible. The Board secretariat recently received the report and thanked Mufti Faraz Adam for providing a comprehensive and considered opinion. The Board will now go back to Counsel for a follow-up opinion and will consider this advice alongside the full report, which can be found here https://lgpsboard.org/images/Reports/ShariaandLGPS/An_Opinion_on_the_Shariah_Compliance_of_LGPS.pdf

6.7. **The Pension Regulator's (TPR) General Code of Practice ('the Code')**

The Code has been laid in Parliament and is expected to come into force on 27th March 2024. It replaces Code of Practice 14 for Public Sector Pension Schemes and brings together 10 previous TPR Codes into one single Code. The Fund is studying the Code closely to identify any new requirements. Clarity is required on which parts of the Code specifically apply to the LGPS and what these mean for funds and how they should be applied in practice. The SAB has said that it will support funds in understanding any new requirements in the Code and where needed, will produce new or update existing guidance to assist funds with their responsibilities. Details of the new Code can be found on TPR's website: Single code of practice consultation | The Pensions Regulator

6.8. Procurement

The tendering process for the Fund's Actuarial Services contract and Benefits and Governance contract is now complete. Final decisions were taken by the Pensions Committee on 28 November 2023 with both contracts being awarded to Hymans Robertson.

7. **Funding Update**

7.1 **Funding strategy and policy reviews**

The Small Employers Admission Policy is going out for employer consultation and will be brought back to Pensions Committee for final approval once the consultation is concluded.

7.2 **Other Hackney Pension Fund funding matters**

Appendix 1 to this report provides the funding update for the quarter to 30 September 2023 from the Fund's Actuary, Hymans Robertson. The key statistics are as follows:

	31/3/2022 (last valuation date)	30/06/2023 (last quarter)	30/09/2023 (most recent quarter)
Funding level (assets / liabilities)	106%	138%	137%
Surplus/(deficit)	£100M	£520M	£500M

7.3 The results shown above are estimates based on rolling forward the Fund's funding position from 31 March 2022, allowing for market conditions but not for the effect of changes in the membership profile since 31 March 2022. The key driver of the changes since March 2022 have been movements in gilt yields, which have increased since the valuation. Whilst asset values have reduced since the valuation date, the drop in liability values as a result of rising gilt yields has more than compensated, resulting in an increase in the estimated funding level.

7.6. Changes to participating employers: The following changes occurred during the quarter to 30 September 2023:

- New Employers to the Fund –
  Community Schools Trust (01/09/2023)
  Skinners Academies Trust (01/09/2023)
  Olive Dining - Millfields (01/09/2023)
  Harrison Catering Services - Mossbourne (01/09/2023)
  CleanTec Services - Shoreditch Park (20/08/2023)

- Employers leaving the Fund –
  Compass (Cardinal Pole) Chartwells (31/08/2023)

7.7 **Other funding related developments and news**

SAB Statement on Surpluses
In December 2023 the Scheme Advisory Board issued a statement on the topic of fund surpluses. The statement follows the improvement in funding levels experienced by many LGPS funds at the 2022 valuation and the subsequent market movements which have resulted in further increases for many. The statement is intended to emphasise the importance of contribution rate stability and assist funds in managing employer expectations at a time of significant financial challenge for many. The statement can be found on the SAB's website here:
https://lgpsboard.org/images/Other/SAB_Statement_on_Surpluses.pdf

SAB Guidance on Academy Conversions
In October 2023, the SAB issued guidance on common actuarial approaches used by LGPS funds on a local authority school's conversion to academy status. The guidance was prepared in response to a recommendation in the s13 Report on the 2019 fund valuations, produced by the Government Actuary's Department (GAD). The guidance can be found on the SAB website here:
https://lgpsboard.org/images/Guidance/Oct2023SABGuidanceonAcademyConversions.pdf

8. Investment including LCIV and RI update

8.1 **Investment strategy and policy reviews**

Work on the Fund's investment strategy review will continue into 2024/25. At the March 2024 Committee meeting, it is intended that the Committee will give further consideration to implementation of the impact property allocation previously agreed.

8.2 **Other Hackney Pension Fund investment matters**

Investment performance update

Appendix 2 to this report provides a manager performance update from the Fund's Investment consultants, Redington for the quarter to 30 September 2023. The report includes an analysis of quarterly, 1 year and 3 year and since inception performance against benchmark, and a brief commentary on performance for each mandate.

This was a challenging quarter in markets, as the "higher for longer" interest rates messaging coming from central banks began to hit home. The LCIV Global Alpha Growth Paris-aligned Fund, LCIV Sustainable Equity Fund, LCIV Diversified Growth Fund, LCIV EM Equity Fund, Blackrock World Equity and the BMO bond mandate all delivered negative returns over the quarter. The Blackrock Short Bond FUnd, Blackrock Low Carbon and Threadneedle TPEN Property funds delivered positive returns. The Threadneedle Low Carbon Property Fund is now in wind-down, with the underlying properties being sold.

The Blackrock Short Bond Fund was the best performer in absolute terms, returning 1.3%, whilst the Threadneedle TPEN Property Fund delivered the strongest excess return above benchmark, at 0.6% (0.2% total return).

4 funds delivered returns below the benchmark - LCIV GAGPA Fund (-4.3%, -5.1% relative to benchmark), LCIV Sustainable Equity Fund (-1.0%, -1.5% relative to benchmark), LCIV Diversified Growth Fund (-2.2%, -4.3% relative to benchmark), LCIV EM Equity Fund (-1.7%, -2.9% relative to benchmark), .

In monitoring performance, particular attention is paid to funds or mandates that have seen sustained below benchmark performance. London CIV are due to attend the March Pensions Committee to discuss the performance of the LCIV GAGPA and Sustainable Equity Funds, which have each seen a lengthy period of underperformance.

A wider market update is included at Appendix 3.

Responsible investment update

The Fund agreed a new set of climate targets in March 2023. As part of its journey towards net zero, the Fund has set the following targets for 2030:

- Achieve a 50% carbon footprint (scope 1&2) by 2030 compared to 2023 carbon footprint as the baseline.
- Target a 2C portfolio by 2030 with a 1.5C goal for 2040.
- Allocate no less than 10% of Fund assets to climate solutions over the next 5 years in line with the Strategic Asset Allocation (SAA) changes subject to fiduciary duties

Progress against these targets will be monitored on an annual basis.

Work has begun on developing a new engagement framework for the Fund to support a Stewardship Code submission in Autumn 2024. A meeting of the RI Working Group to support this work will take place prior to the March Committee. The group will consider what type of engagement model would best suit the Fund’s priorities and resources and which areas should be prioritised.

The Pensions Committee has also 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). We receive updates from LCIV where managers have deviated from LAPFF’s voting recommendations and report these in this section; none have been received since the previous report.

At present we only receive this information from London CIV, but Officers will also explore options to strengthen the Fund's approach to voting in the passive mandates held by BlackRock.

The LAPFF Quarterly Engagement report is attached at Appendix 4 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.

8.3 **Other investment related developments and news**

DLUHC Investments Consultation response

Alongside the Chancellor's Autumn Statement, the response to the "next steps on investments" consultation was published by DLUHC on 22 November 2023. The response largely adopts the measures the government originally consulted on, with the following summary provided:

"After having considered the responses, the government will now implement the proposals that we set out in the consultation to accelerate and expand pooling, and increase investment in levelling up and in private equity. We will:

- set out in revised investment strategy statement guidance that funds should transfer all assets to their pool by 31 March 2025, and set out in their ISS assets which are pooled, under pool management and not pooled and the rationale, value for money and date for review if not pooled
- revise pooling guidance to set out a preferred model of pooling including delegation of manager selection and strategy implementation
- implement a requirement in guidance for administering authorities to set a training policy for pensions committee members and to report against the policy
- revise guidance on annual reports to include a standard asset allocation, proportion of assets pooled, a comparison between actual and strategic asset allocation, net savings from pooling and net returns for each asset class against their chosen benchmark
- make changes to LGPS official statistics to include a standard asset allocation and the proportion of assets pooled and the net savings of pooling
- amend regulations to require funds to set a plan to invest up to 5% of assets in levelling up the UK, and to report annually on progress against the plan
- revise ISS guidance to require funds to consider investments to meet the government's ambition of a 10% allocation to private equity."

The full response can be found on Gov.uk:
https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-next-steps-on-investments/outcome/local-government

-pension-scheme-england-and-wales-next-steps-on-investments-government-response

9. Pensions Administration and Communications Update

9.1 Administration and communications and strategy policy reviews

The Pension Tax Communication Strategy was due to be reviewed but has been delayed by the McCloud remedy and guidance around tax implications. This has been further delayed due to the changes in the LTA regime. An update can be given at the next meeting.

The Over and underpayment policy has been revised as part of the regular triennial review process for this policy. The updated policy is included on this Committee agenda for review and approval by the Pensions Committee.

9.2 Other Hackney Pension Fund administration and communication matters

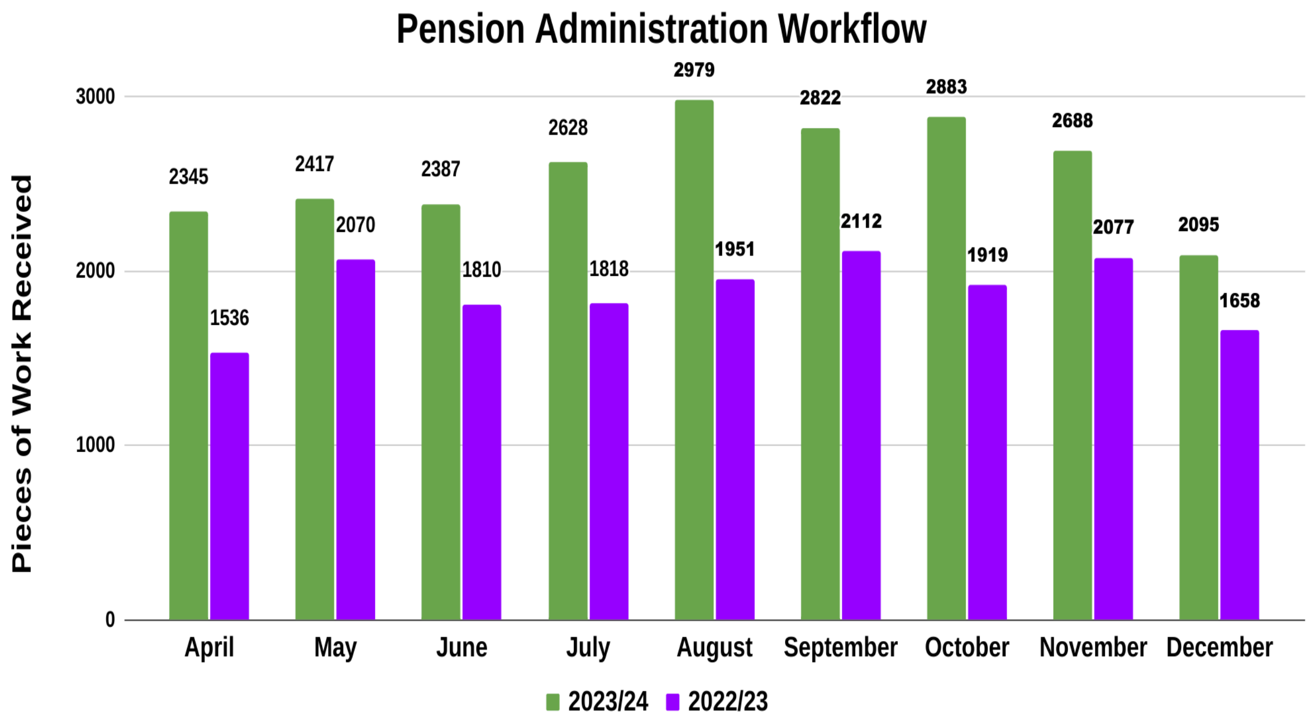
Equiniti Monthly Monitoring

The current contract in place with Equiniti has resulted in some changes to performance measures. Monthly reporting is now required on the basis of a large number of service level agreement standards (SLAs). The graph in 9.3 reflects this reporting change, showing from the beginning of the financial year 1 April 2023.

In addition to the reporting changes the SLA timeframes are also being revised to bring them in line with new SLAs under the contract. Equiniti have now confirmed they have amended their work management system to capture these and these are now captured from December 2023 reporting onwards.

Case levels

During 2023/24 (the green bars) EQ have seen significantly higher new cases received when compared to the same period in 22/23. It is also evident that the usual slight decrease seen in the high summer months and around Christmas did not occur during 23/24



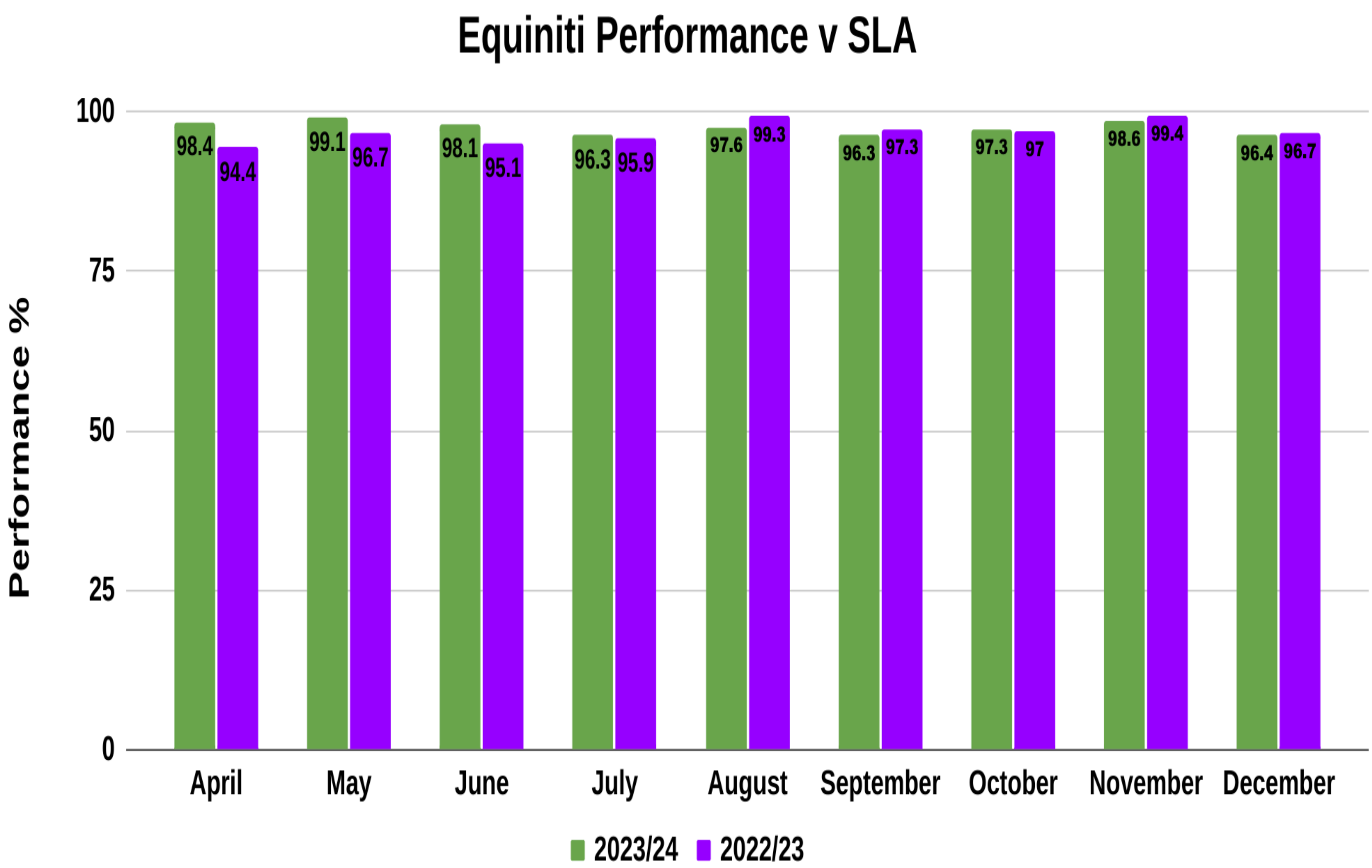
9.3 *SLA monitoring*

The contract with Equiniti includes a large number of service level agreement standards (SLAs). The SLAs 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.

The following graph shows Equiniti's performance in these areas since April 2023 (the green bar) and shows the comparable position last year (the purple bar). The graph shows the overall SLA performance against all service level agreement standards in place.

An averaged SLA of 97.6% was achieved for the reporting period, compared to 96.9% for the same period last year.



9.4 *Communications*

McCloud Disclosure Communication

The new rules from 1 October 2023 constitute a ‘material change to basic scheme information’. To satisfy the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, administering authorities must tell all members who might be affected by the changes about them. They must do this within three months of the changes taking effect.

As such, in mid December 2023 all Hackney Fund members were sent a leaflet informing them of the scheme regulation amendments made in order to implement the McCloud remedy.

Pre Retirement Seminars

The Pensions Team arranges ‘Pre-retirement workshops’ with a company called Affinity Connect, aimed at members who are thinking of retiring within the next 2 to 5 years. These workshops are held remotely with Affinity providing the facilitator, learning material and bookings free of charge. These are currently being held on a monthly basis and feedback received has been positive.

Annual Benefit Statements

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.

As a result of previous lessons learnt the process was improved this year with increased communication and coordination between the different teams involved in the process within Equiniti. The internal controls and processes, plus increased automation of the system has also been undertaken.

Statements have been issued by the legal deadline this year as outlined below:

- Active member benefit statements 6,595 (which also includes any pension credit members). Some 700 records were suppressed due to having a flag on the system as a potential unsolved leaver/change in status is yet unknown.

Equiniti continued to work through these queried records and the active statements now issued totals 6,909. Others were found to be leavers and therefore have been finalised as leavers on the administration system and notification of deferred benefits duly sent out.

- Deferred member benefit statements
    - statements issued: 7,238
    - statements not able to be issued due to no current address: 1,585 .

Equiniti are continuing to work through circa 160 deferred records which have data queries on and if any of these do require a statement these will be issued as and when the query is resolved by the business as usual team

As a result of the outstanding queries a breach has been reflected in the breaches register and the Fund has decided that the breach was not significant enough to make a report to the Pensions Regulator.

9.5 *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.
- Stage 2 IDRP's are determined by the Group Director, Finance taking external specialist technical advice from the Fund's benefits consultants.

Stage 1 – Four applications were submitted during the reporting period. Two were against the employer/former employer for an ill health decision, both were partially upheld and sent back to the employer/former employer for further occupational health assessment. The third is against the administering authority in relation to a cohabiting pension and was not upheld. The fourth is in relation to a refund and taxation issue and was not upheld.

Stage 2 – One application was submitted during the reporting period. It is against the administering authority in relation to a Pension Saving Statement issue and investigations are still ongoing.

9.6 *Third Party Administration Implementation Update*

As previously confirmed, extension of the Fund's third party administration services contract with Equiniti 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. The migration to the new software has been delayed. Once new timeframes have been proposed a further update will be given at the next meeting.

9.7 *McCloud Programme Update*

Regulatory position

Following the "McCloud" regulations being laid on 8 September 2023 and coming into force on 1 October 2023, further guidance and resources have been issued as follows:

- On 3 October 2023, the Local Government Association (LGA) issued template letters guidance for administrators along with creating a dedicated McCloud area on their website.
- On 12 October 2023, the Department of Levelling up, Housing and Communities issued draft prioritisation guidance setting out how LGPS cases affected by the McCloud remedy should be prioritised. This guidance will now be consulted on early in 2024, with a final version expected to be issued by the end of March 2024.
- On 15 November the LGA issued phase 1 of its administrator guidance which includes worked examples. The guide is being released in stages due to the breadth and complexity of the McCloud remedy project. Later versions will include 'other types of calculations' and 'revisiting past calculations'.
- On 25 January 2024 the Government Actuary's Department issued new guidance about how the McCloud remedy will affect early/late retirement and transfer calculations.

Regulations are still required in order to effectively implement the remedy for teachers excess service and it is expected that there will be a technical consultation on these in due course.

Workstream update
All workstreams are progressing, with regular meetings being attended by key Hackney pensions officers and representatives from Equiniti and Aon.

Whilst the overall project is still running slightly behind 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 continues to change. Now that the regulations have been published many actions that were previously 'on hold' are being progressed. A further update will be provided at the next Committee meeting.

9.8 *Pension Saving Statements for tax year 2022-23*

The Finance Act 2006 sets out that individuals can only save up to £40,000 for the 2022-23 tax year in their pension funds (a lower amount applies for some of the very highest earners). For a defined benefit scheme such as the LGPS, this is calculated as the overall growth in their benefits over the year. The Pension Fund is required to send a Pensions Savings Statement to notify any member whose benefits within the Hackney Pension Fund have exceeded £40,000. These statements must be issued by 6th October in respect of the previous financial year.

Given problems encountered in previous years extra checks and controls were put into place to ensure that the statements went out right first time. This did result in the statutory deadline being missed, however the confidence in the statements provided this year was much higher and the queries received vastly less than in previous years.

There were 25 statements issued on 25 October. An additional 1 statement was issued in November. This statement required additional technical assurance from the Fund benefit consultants. The overall number of statements issued this year was lower, as expected than the previous year due to the change in the revaluation date and the inflationary measure used in the calculations being high.

9.9 **Other administration and communications related developments and news**

LGPS statistics for 2022/23 published

On 25 October 2023, DLUHC published the LGPS statistics for England and Wales: 2022 to 2023. Highlights include:

• total expenditure was £15.2 billion, an increase of 5.1 per cent on 2021/22
• total income was £17.3 billion, an increase of 8.5 per cent on 2021/22

• employers’ contributions amounted to £8.4 billion, an increase of 7.8 percent on 2021/22
• employee contributions were £2.8 billion, an increase of 9.5 per cent on 2021/22
• the market value of the LGPS funds at the end of March 2023 was £357.2 billion, a decrease of 1.9 per cent
• there were 6.2 million scheme members on 31 March 2023: 2 million active members, 1.9 million pensioners and 2.3 million deferred members
• there were 87,129 retirements, a decrease of 8 per cent compared with 2021/22.

HMT confirms LTA abolition next April

HM Treasury (HMT) announced in the Autumn Statement on 22 November 2023 that it will legislate in the Finance Bill 2023 to fully abolish the lifetime allowance (LTA) from 6 April 2024. On the same day, it also published a policy paper explaining:

• how lump sums and lump sum death benefits will be taxed without the LTA
• what will happen to people with LTA protections, lump sum protections or LTA enhancement factors
• the function of benefit crystallisation events
• the tax treatment of transfers to qualifying recognised overseas pension schemes
• the transitional arrangements
• the reporting requirements.

On 29 November 2023, HMT published the draft Finance Bill 2023.

Court of Appeal rule TPO is not a competent court

The Court of Appeal has ruled in the case of The Pensions Ombudsman v CMG Pension Trustees Limited & Anor that the Pensions Ombudsman (TPO) is not a ‘competent court’ for the purposes of enforcing a dispute regarding a monetary obligation under section 91(6) of the Pensions Act 1995.

This could affect how overpayments are recouped and monetary obligations due to misconduct are recovered from pension benefits when there is a disagreement over the amount. A TPO decision that allows recoupment / recovery may not be enough for enforcement; an order from a county court or another competent court may be needed.

TPO has since expressed its disappointment about ruling that it is not a competent court. The Department for Work and Pensions is supporting legislative changes to formally empower TPO to bring these disputes to an end without needing a County Court Order. In the meantime, TPO has been working with stakeholders across the sector to review the management of such disputes to minimise the additional time and cost that has been added to the process. It has also published a recovery in overpayment cases factsheet to provide guidance to help schemes manage these disputes

Appendices

Appendix 1 – Funding Update - Hymans Robertson
Appendix 2 – Investment Performance Report - Redington
Appendix 3 – Markets Update - Redington
Appendix 4 – LAPFF Engagement Report

Background documents

None

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