Hackney

Title of Report	Quarterly Update Report
For Consideration By	Pensions Committee
Meeting Date	26 March 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 information on the position of the Fund between September and December 2023. It should be noted that, on this occasion, some of the contents of this report would have been considered already at the previous meeting as this report is being used to harmonise reporting periods, across the areas covered.

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 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. **Comments of the Acting Director of Legal, Democratic and Electoral Services**

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. **Governance Update**

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:

There have been no changes to report since the last report in February 2024

The date of the next Pensions Board meeting is currently being arranged and is expected to be in early April 2024. This will be the first meeting of the new Board and will focus on training regarding the role of the Board and its new members.

Changes in staffing/resourcing - There have been no further changes in the key pension team staff or suppliers since the last report to Committee in February 2024.

6.3. *Knowledge and Skills Policy implementation*

The following training has taken place since the last report.

One co-opted member of the Pensions Committee and one Pension Fund officer attended the LGC Investment Conference at Carden Park on Thursday 14 - Friday 15 March

Any committee members wishing to attend these future training/conferences should contact Michael Honeysett, Interim Head of Pensions to confirm arrangements.

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 final laid 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 will be delivered 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. These were due to commence during quarter 4 but have been delayed and will now commence shortly.

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 11 March 2024. At the time of writing the summary note of the meeting had not been published; in due course it will be found here: https://www.lgpsboard.org/index.php/about-the-board/board-updates. Some of the agenda items have been published and can be found here – https://www.lgpsboard.org/index.php/about-the-board/prev-meetings.The main areas covered in the meeting were:

- The Pensions Regulator General Code
- Cost Management Results
- McCloud Update
- Code of transparency Project Update
- General Pensions GAP update

6.6. *SAB Board Chair and Secretary meet with Minister Simon Hoare MP*

On Tuesday 16 January 2024, the Chair of the Board, Cllr Roger Phillips, and the Board Secretary, Jo Donnelly, met the minister for local government, Simon Hoare MP, in person. They discussed McCloud, the Government's response to the next steps on investments consultation, and Government progress on the Good Governance recommendations and the climate risk reporting consultation response.

6.7. The Board has issued a short response to the DLUHC consultation on "*Addressing the local audit backlog in England*". The consultation was discussed at the Compliance and Reporting Committee when it met on 12th February. The Committee agreed that the Board should express concern that if there were wide-spread disclaiming of LGPS administering authority accounts in order to meet the new deadlines, then there would be knock-on consequences for the 18,000 scheme employers that rely on information from the pension fund audit in order to complete their own audits. Essentially, the scheme employer auditor will need to do further work to gain assurance on the information provided to it by the LGPS actuary on its assets and liabilities under the scheme, which may well be material, depending on a range of factors. The Board's response also takes this opportunity to re-emphasise the representations it made in an earlier letter asking that pension fund audit should be separated out from the host authority audit. This would also resolve some of the consequential problems with backlogs as it is not the audit of the pension fund account which is usually holding up completion of the host authority's audit report.

6.8. The auditor's are very close to signing off Hackney's Statements of Accounts, including the Pension Fund accounts, for both 2021/22 and 2022/23. The Pension Fund accounts are unlikely to be amended further as part of this process.

7. Funding Update

7.1 Funding strategy and policy reviews

The Small Employers Admission Policy approved by the Committee in November 2023 is currently with Employers in the Fund for consultation. Pending any comments that require further amendment, it is intended that the new policy will become effective from 1 April 2024.

7.2 Other Hackney Pension Fund funding matters

Appendix 1 to this report provides the funding update to 31 December 2023 from the Fund's Actuary, Hymans Robertson. The key statistics are as follows:

	31/3/2022 (last valuation date)	30/09/2023 (last quarter)	31/12/20223 (most recent quarter)
Assets	£1.96bn	£1.86bn	£1.99bn
Liabilities	£1.86bn	£1.36bn	£1.53bn
Surplus/(deficit)	£100m	£500m	£460m
Funding level (assets / liabilities)	106%	137%	130%

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 increased only marginally since the valuation date, this has been accompanied with a significant drop in liability values as a result of rising gilt yields, resulting in an increase in the estimated funding level.

7.6. There have been no changes to participating employers in the Fund during the quarter.

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. There is a separate paper on this agenda regarding the review of the Fund's Bonds mandate following introduction at the last meeting. It is intended that the Committee will give further consideration to implementation of the impact property allocation previously agreed at a future meeting.

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 31 December 2023. The report includes an analysis of quarterly, 1 year and 3 year and since inception performance against benchmark, and a brief commentary on the performance of each mandate. as well as Redington's current ratings for each manager.

Quarter 4 of 2023 was defined by the US CPI release in mid-November which was below expectations, strengthening market conviction that the Federal Reserve would pull off a soft landing - stocks and bonds in general rallied strongly in response.

All of the Funds in which the Hackney Pension Fund is invested returned positive returns over the quarter except for the two Columbia Threadneedle Property Funds with TPEN delivering -1.3% and the Low Carbon Property Funds -7.6%. The Low Carbon Property Fund is now in wind-down, with the underlying properties being sold.

The Blackrock World Equity Fund was the best performer in absolute terms, returning +9.6%, whilst the LCIV Diversified Growth Fund delivered the strongest excess return above benchmark, at +4.8% (+6.9% total return).

3 funds delivered returns below the benchmark - LCIV Emerging Market Equity Fund (+2.1%, -1.2% relative to benchmark), and the Colombia Threadneedle TPEN Fund (-1.3%, -0.1% relative to benchmark), .

In monitoring performance, particular attention is paid to funds or mandates that have seen sustained below benchmark performance. London CIV are attending the March Pensions Committee to discuss the performance of their funds which have each seen lengthy periods of underperformance, despite some improvement over the last quarter in 2 of them.

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 (RIWG) took place to support this work on 6th March. An update on the work of the RIWG is included elsewhere on this meeting agenda.

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**

Chancellor's Spring Budget

The Chancellor announced that requirements will be introduced for Local Government Pension Scheme funds to publicly disclose the breakdown of their asset allocations, including UK equities, on an annual basis. These requirements are expected by the end of the month as part of the new Annual Report guidance. The Chancellor also stated that the government will review what further action is needed if this reporting does not demonstrate that UK equity allocations are increasing.

Further analysis and clarifications regarding these announcements are expected in due course.

9. Pensions Administration and Communications Update

9.1 **Administration and communications and strategy policy reviews**

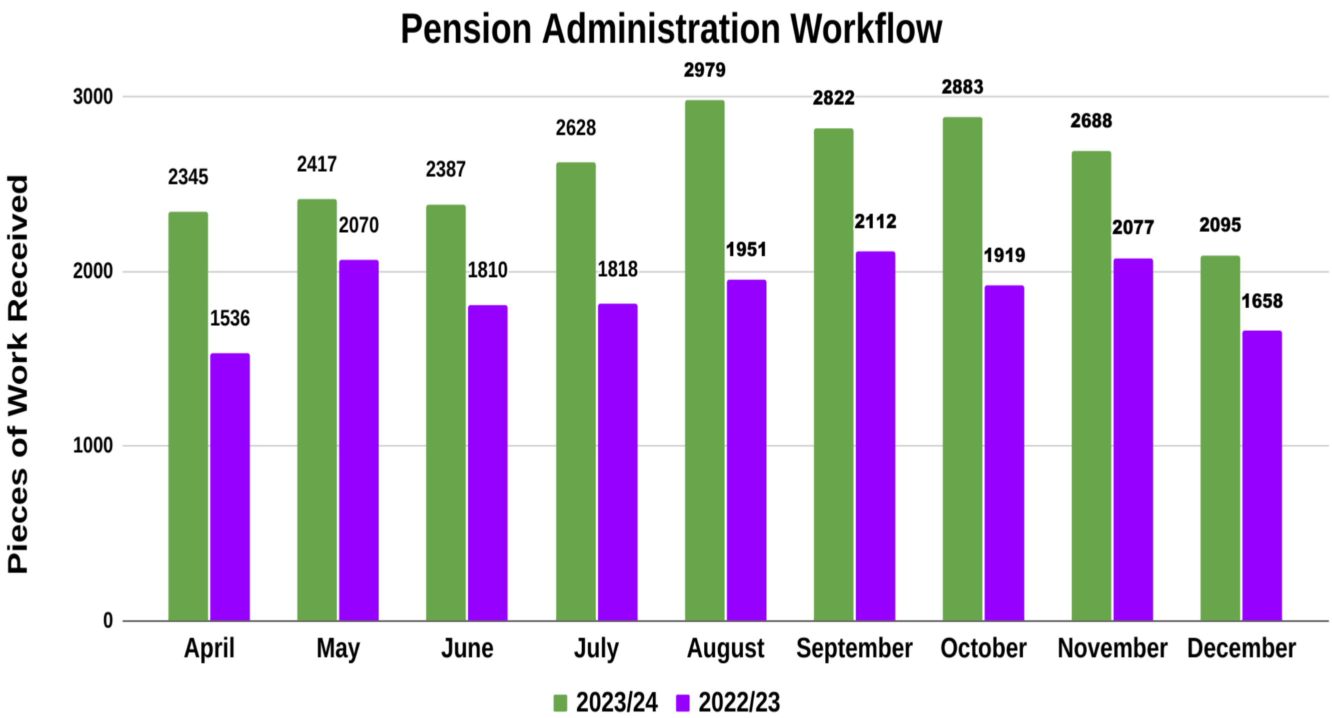
The Pension Tax Communication Strategy was due to be reviewed but has been delayed by the McCloud remedy and guidance around tax implications. This has been further delayed due to the changes in the Lifetime Allowance (LTA) tax regime, with the LTA being abolished from April 2024. However, there will still be a limit on the amount of tax-free lump sum a member can take.

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.



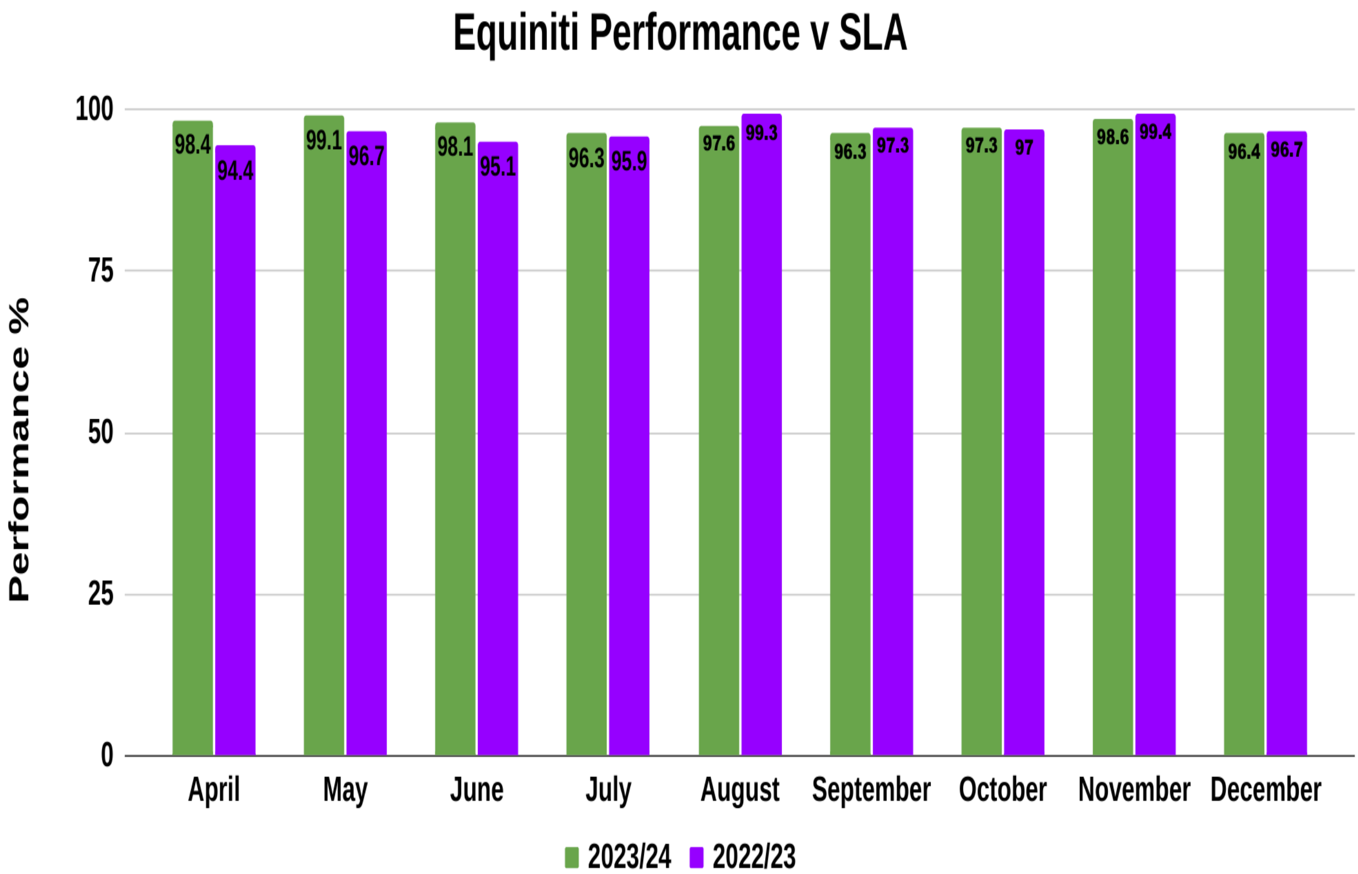
Case levels

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*

<u>McCloud Disclosure Communication</u>

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.

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.

9.5 *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 *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 member McCloud area on their website.

- 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.

A consultation on DLUHC guidance is now underway with a selected group of LGPS stakeholders and due to close on 12 April. This guidance covers identifying members in-scope, prioritisation of cases and some other technical issues.

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 continued to change.

Significant risks on the programme are the delay in issuing further central guidance and worked examples due to the lateness in the publishing of final regulations, which have made timescales for various activities tight.

However, following the publication of the regulations many actions that were previously 'on hold' are now being progressed. A further update will be provided at the next Committee meeting.

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

HMT Confirmation of annual revaluation, earnings and pensions increase

HM Treasury (HMT) published a written ministerial statement confirming the rates of annual revaluation, earnings and pensions increase due to apply from April 2024.

The statement confirms:

- public service pensions will increase on 8 April 2024 by 6.7%, in line with the Consumer Prices Index for the year up to September 2023
- revaluation of 6.7% plus any local addition will be used in April 2024 to revalue CARE accounts in public service pension schemes that use prices as the measure of revaluation
- revaluation of 7.7% will be used in April 2024 to revalue the CARE accounts in public service pension schemes that use earnings as the measure of revaluation.

The Government will legislate for these changes in due course.

Pensions Increase multiplier tables HMT published the 2024 Pensions Increase multiplier tables and a covering letter. You can find these on the "Related legislation" (England and Wales) page of www.lgpsregs.org

TPO Interim chair of the Pensions Ombudsman (TPO) appointed

DWP has appointed Anthony Arter as the Interim Chair of TPO. Anthony served as the Pensions Ombudsman for eight years until January 2023, followed by a period as the Deputy Pensions Ombudsman. He will serve as the Interim Chair until a permanent Chair is appointed.

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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