



Havering
LONDON BOROUGH

LOCAL PENSIONS BOARD

27 February 2024

Subject Heading:

Review of Pension Committee Papers

SLT Lead:

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Policy context:

Oversight and Scrutiny with respect to decisions taken by the Pension Committee

Financial summary:

None directly

SUMMARY

The Pension Board is invited to note the reports from the most recent Pension Committee meeting held on 24 January 2024 (This is a reconvened meeting from the 12 December 2023, which was adjourned due to illness of the Chair and Vice Chair).

RECOMMENDATIONS

To note the report.

REPORT DETAIL

1. Background

The papers from the most recent Pension Committee meeting are available online for the December meeting on the council's website: [Pensions Committee 24 January 2024 Agenda pack](#) with the exception of exempt papers, which can be made available on request. **Highlights of all papers are covered below:**

2. Pension Fund Performance Monitoring for the quarter ending September 2023 (Agenda Item 8).

- 2.1 The Committee considered the quarterly investment performance of the Fund as at 30 September 2023.
- 2.2 The market value of the Fund's assets at 30 September 2023 was £899.23m, a decrease of £5.75m compared with June 23. Movement is attributable to a decrease in asset values (-£12.45m) and increase in cash (£6.70m).
- 2.3 Fund underperformed the tactical benchmark by -1.56% and outperformed the strategic benchmark by 3.74%.
- 2.4 The decrease in valuation can be primarily attributed to the Fund's allocation to the LCIV Global Alpha Paris Aligned Fund managed by Bailie Gifford specifically. This was then followed by the Fund's allocation to index-linked gilts which continued to decrease in value as real gilt yields rose over the longer terms as the BoE raised interest rates, despite the downward trend in UK inflation over the period.
- 2.5 Full details of the Fund's asset allocation and individual manager performance are included within Appendix A (Pensions Committee 24 January 2024 Document pack – item 8), provided by the Fund's investment advisers, Hymans.
- 2.6 At each reporting cycle, the Committee will see a different fund manager until members have met them all unless there are performance concerns that demand a manager be brought back again for further investigation. The fund manager attending the meeting was CBRE – Global Property Manager. (report exempt from public).
- 2.7 Investment strategy movements from the June report:

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- completed £6.3m of capital draw down requests, funded with cash received from investment income held with the Custodian.
- As agreed at the 25 July 23 Pensions Committee meeting, £13m was paid to JP Morgan to rebalance the Infrastructure allocation. This was funded by a divestment from LCIV Diversified Growth Fund.
- As agreed at the 12 September 2023 Pensions Committee meeting, £45m was invested in the LCIV Global Bond Fund on the 10 November 2023. This was funded by a full redemption of the LCIV Diversified Growth Fund. Residual cash balance from the full redemption of the LCIV Diversified Growth Fund will be held pending future investment decisions or to fund outstanding capital call.
- At 31 October 2023 there was £59.1m of outstanding capital commitments.

2.8 LCIV Updates:

- DLUHC Return September 2023 - Each year the Department for Levelling Up, Housing and Communities (DLUHC) requests information from partner funds regarding their pooling intentions over the forthcoming three years. Havering was identified as one of 6 funds showing an allocation that reduced (from 62% to 60%). This reflects lower asset values and the transfer out of the LCIV DGF and a lower allocation to its replacement LCIV Global Bond. Officers have advised LCIV that this should not be viewed as a reduction in our commitment to asset pooling.
- LVIC Diversified Growth Fund remains on enhanced monitoring. The Fund fully divested from this fund on 8 November 2023

2.9 LGPS General Updates:

- Taskforce on Nature-related Financial Disclosures (TNFD) - formally launched its framework and final recommendations on 18 September 2023. TNFD reporting mirrors that of the Taskforce on Climate Related Financial Disclosures (TCFD) with recommended disclosures across the same four themes, **Governance, Strategy, Risk Management** and **Metrics and Targets**. Across these four themes, there are 14 disclosures (11 in the TCFD). It should be noted that this is about protecting the Fund's investments from risks related to habitat loss and loss of biodiversity. TNFD is currently voluntary and the committee will be given an opportunity to assess its adoption at a future education session.
- McCloud update - On 8 September, DLUHC announced the outcome of the consultation on McCloud issues. It also laid before Parliament "The Local Government Pension Scheme (Amendment) (No. 3) Regulations 2023", which came into force on 1 October 2023. The LGPS Regulations 2013 as amended to include the new definition of the underpin and extend it to those groups who were previously excluded but are now in scope.

Statutory guidance is expected shortly, providing funds with more information on how to implement the new underpin including advice on prioritising cases.

- Next Steps on Investment Consultation – Government response released on the 22 November 2023. Government received 152 responses indicating its intention to implement the proposals as set in the consultation. Not mandatory – more along the lines of comply or explain basis and includes:
 - transfer all assets to the pool by 31 March 2025.
 - set a training policy for pensions committee members and to report against the policy.
 - funds to set a plan to invest 5% of assets in levelling up the UK, and to report annually on progress against the plan.
 - require funds to consider investments to meet the governments ambition of a 10% allocation to private equity
 - set objectives for investment consultants
 - DLUHC will work closely with the Scheme Advisory Board to develop changes to regulations and revised guidance

3. Pension Fund Valuation Funding Update from 31 March 2022 to 30 September 2023

- 3.1 The estimated funding level has increased from 80% at last valuation date 31 March 2022 to 106% at 30 September 2023. Employer contributions will not be reviewed until the next valuation as at 31 March 2025. The purpose of the funding update was to assess whether the funding plan is on track and take actions where necessary.
- 3.2 The updated funding position provides an illustrative funding position and not designed to meet regulatory requirements for valuations.

Table 1

Ongoing funding basis	30 Sep 2023	31 Mar 2022	31 Mar 2019
	£m	£m	£m
Assets	891	920	733
Liabilities	842	1,149	1,054
Surplus/(deficit)	49	(229)	(321)
Funding level	106%	80%	70%

- 3.3 Increased funding level has been driven by a fall in the liabilities. The fall in liabilities is a consequence of higher than expected real discount rate used to value the current cost of future pension obligations (accrued liabilities).

- 3.4 If the real discount rate used to value the accrued liabilities was lower, then the value placed on those liabilities would increase. For example, if the real discount rate at 30 September 2023 was 1.0% pa lower, then the liabilities on the Ongoing basis at that date would increase by 18.3%.
- 3.5 No actions are required to change the current funding plan.
- 3.6 The next formal valuation date is 31 March 2025.

4 Service Review of the Pension Fund Custodial & Performance Monitoring service – 1 October to 30 September 2023

- 4.1 This report reviews the performance of the Custodial and Performance Measurement services provided by Northern Trust, for the period 1 October 2022 to 30 September 2023.
- 4.2 Northern Trust was appointed to commence Custodial and Performance Measurement Services from 1 October 2019 until the 30 September 2023. A new contract was awarded via a direct award for a further three years commencing on 1 October 2023 and will expire on the 30 September 2026.
- 4.3 This period of review covers the custodial and performance measuring services delivered by Northern Trust for the period 1 October 2022 to 30 September 2023.
- 4.4 Services are reviewed annually to ensure that the Fund is receiving best value for money and is benefiting from all the services the custodian has to offer. Monitoring the contract also meets post contract award procedures and ensures services are being delivered in accordance to the contract.

Table 2

CRITERIA	ASSESSMENT	Rating
Safe Keeping and Custody of Assets		
It is important that the Pensions Committee and officers have confidence that all assets are secure and properly accounted for.	Officers review the custodians audited System and Organisation Control (SOC1) report produced annually. No concerns were raised in their latest report covering the 12 months to 30 Sept 2022. The Sept 23 report will not be available until approximately 6 months after the period end date.	GREEN: Officers have confidence that the assets are accounted for correctly.
Investment Accounting and Reporting		
It is important that accurate accounting	Officers run detailed reports from the custodian’s website	GREEN: Officers are satisfied that accurate

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CRITERIA	ASSESSMENT	Rating
records are maintained and appropriate reconciliations can be made against the Fund's investment managers records.	using their "passport" tool. These reports are reconciled to individual fund manager reports and any differences investigated. This provides assurances that accurate records are maintained. Officers also use the additional reporting functionality that contributes to reconciling the accounts.	accounting records are maintained with no audit issues identified to date.
Prompt and responsive service	Reponses to queries are dealt with promptly.	GREEN: Officers are very satisfied and appreciative of the responsive service
Good communication and support	Officers communicate frequently with the custodian covering general day-to-day operations and to obtain assistance in ensuring investment instructions templates are completed correctly.	GREEN: Communications and support continue to be very satisfactory.
Provision of data for the Office of National Statistics (ONS) Returns	The Fund uses the custodians ONS service and they complete the investment sections within the return and answer/resolve any queries raised by ONS. These have been delivered within the required timescales.	GREEN: Officers are very satisfied with this service
Performance Measurement		
It is important that the Pensions Committee and officers understand whether the investment objectives of the Fund are being met and if the fund managers are achieving their targets.	Northern Trust performance measurement service produce monthly and quarterly reports setting out performance returns versus benchmarks for each manager and the whole fund over a number of time periods that cover 1 month, 3 months, 1 year, 3 years, 5 years and inception. Performance reports are available via the custodian's website using the "RADAR" tool.	GREEN Performance reports are received within specified timescales and officers are very satisfied with this service.

- 4.5 Officers are satisfied with the provision of safekeeping and custody functions.
- 4.6 Officers are satisfied with the overall investment accounting and reporting functions.
- 4.7 Officers are satisfied with the performance monitoring service.

IMPLICATIONS AND RISKS

Financial implications and risks:

This report provides feedback from items that have already been presented to the Pensions Committee on the 24 January 2024 (previously scheduled for the 12 December 2023).

Report clearance was achieved as part of that process and no new recommendations are necessary. Therefore, there are no direct financial implications arising from the recommendations in this report to the Local Pension Board.

Legal implications and risks:

This report provides feedback from items that have already been presented to the Pensions Committee on the 24 January 2024 (previously scheduled for the 12 December 2023).

Report clearance was achieved as part of that process and no new recommendations are necessary. Therefore, there are no legal implications arising from the recommendations in this report to the Local Pension Board.

Human Resources implications and risks:

This report provides feedback from items that have already been presented to the Pensions Committee on the 24 January 2024 (previously scheduled for the 12 December 2023).

Report clearance was achieved as part of that process and no new recommendations are necessary. Therefore, there are no Human Resources implications arising from the recommendations in this report to the Local Pension Board.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

- (i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- (ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- (iii) Foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

An EqHIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected

BACKGROUND PAPERS

Background Papers List

None