



LOCAL PENSIONS BOARD

17 September 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 25 June 2024.

Reports presented to Pensions Committee provides evidence to the Board as to the Fund's compliance with scheme regulations relating to the governance and administration of the scheme.

RECOMMENDATIONS

1. To note the report.
2. The Local Pension may want to consider how it will assist the committee in delivering the work plan as set out in Item 4.6.

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 - 25 June 2024 Supplementary 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 31 March 2024 (Agenda Item 5 – supplementary pack).

2.1 Report presented to Pensions Committee provides evidence to the Board as to the Fund's compliance with scheme regulations relating to the governance and administration of the scheme and to provide assurances that its monitoring processes are in line with TPR best practice.

2.2 *TPR Best practice includes:*

Having procedures in place to monitor their scheme's investments and performance:

- *these procedures should compare investment performance against the stated investment principles at least quarterly*
- *these procedures should consider fees and costs and whether they are justified*
- *these procedures should consider investment returns both before and after fees, and against relevant benchmarks*
- *these procedures should consider fees and costs and whether they are justified*

Set expectations for their investment managers to:

- *ensure monitoring information is prepared and considered at least quarterly and at shorter intervals as appropriate for the size and complexity of your scheme*
- *compare net investment returns to any relevant market or industry benchmarks*
- *consider environmental, social and governance (ESG) factors, including shareholder engagement,*

2.3 The following is a summary of evidence to support the above:

2.4 The Committee considered the quarterly investment performance of the Fund covering the quarter as at 31 March 2024.

2.5 The Fund asset value at 31 March 2024 was £970.0m compared with £932.1m at 31 December 2023; an increase of £37.9m. This movement

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is attributable to increases across most asset classes and a decrease in cash Foreign Exchange (FX) (£4.1m).

- 2.6 The Fund has appointed Northern Trust (NT) as the Fund's custodian and performance measurer. They produce both monthly and quarterly performance reports showing returns against the tactical benchmark (set for each fund manager) and strategic benchmarks (used to assess the expected fund liabilities and gives an indication of whether the funding level has improved or weakened).
- 2.7 The Fund's performance of 3.67% was slightly behind the tactical benchmark (-0.38%) but remains ahead of the strategic benchmark over the longer time periods 10.79% over 3 years).
- 2.8 The NT performance reports are used by our Investment Advisor (Hymans) and feeds into their quarterly monitoring reports, where performance is also compared against the strategy targets. Hymans report, pages 3 -5 refer. Full details of the Fund's asset allocation and individual manager performance are included within Appendix A (Pensions Committee 25 June 2024 - Supplementary Document pack – item.
- 2.9 Hymans attend the Pensions Committee quarterly to present their report and this report also provides an overview of markets and any impacts this has had on performance. In advance of the committee meeting they are sent the presentation pack of the fund manager attending in order to prepare questions and challenges to the fund manager. Hymans will also highlight any performance concerns to the committee and offer advice if any further actions are necessary
- 2.10 At each reporting cycle meeting the committee will invite a fund manager to attend the meeting. The manager attending the meeting was **Royal London** who manage the **Multi Asset Credit Fund (MAC)** and **Index Linked (I/L) Bonds**. Their report (exempt) has been separately distributed to Board members on the 1 August 2024.
- 2.11 Value of the Royal London portfolio as at March 24 was £89.6m – split between MAC (£65.7) and I/L bonds (£23.9m). This is managed as a combined portfolio against a consolidated benchmark.
- 2.12 In terms of the portfolio's actual allocations, the portfolio is materially overweight MAC (73% vs 60% benchmark weight) and underweight index-linked gilts, (27% vs 40% benchmark weight). This is a result of the portfolio's MAC component outperforming the index-linked gilts component and the suspension of any further rebalancing.
- 2.13 Royal London reported that managing the mandate against a consolidated benchmark was a contributing factor to the underperformance (-2.0% over the last 12 months).

- 2.14 **Actions from the meeting** – Hymans to review restructuring the benchmark with the focus being around the merits of disaggregating the benchmark into separate MAC/I/L bond components. Review completed and officers are in discussion with Royal London to implement the Hymans recommendation to separate the benchmarks.
- 2.15 The Fund Manager also reports on how ESG factors impact the portfolio.
- 2.16 **London CIV**
The Funds holds 59% of its assets within the London Collective Investment Vehicle (LCIV), five mandates directly managed by LCIV (40%) and three indirectly managed by Legal & General (19%). The governance of investments held within LCIV is their responsibility but it is crucial that the Fund has assurances that the governance arrangements are robust and regular communication and contact is maintained.
- 2.17 LCIV produce Quarterly Investment reports, which includes an Investment Summary with valuation and performance data for each of our holdings and an update on activities at London CIV, a market update and Fund commentary from the London CIV Investment Team as well as key portfolio data and a summary of ESG activity during the quarter.
- 2.18 The Fund receives monthly transactions and investment statements from the LCIV custodian which are used to reconcile against the Funds custodian reports.
- 2.19 The LCIV hosts Virtual weekly “coffee with the Chief Investment Officer (CIO). Opportunity to share news or in-depth discussions on a fund manager or asset classes. Attended by Officers, recordings available.
- 2.20 LCIV also hosts monthly business update meetings, which include updates from LCIV Chief Officers and includes covering current fund offerings, fund performance; fund updates (including those funds for which enhanced monitoring is in place) and the pipeline for new fund launches. In addition, relevant topical issues are included as appropriate. Attended by Officers, recordings available.
- 2.21 All Havering investments funds are on ‘normal’ monitoring status.
- 2.22 In depth reviews are held annually unless there are concerns about performance whereby the reporting cycle is reduced to six months, Closer six monthly monitoring is in place for the Absolute Return Fund, next scheduled review to be held in May 2024.
- 2.23 The Committee was provided with LGPS updates, as follows:
- **Annual Report Guidance** – new guidance issued March 2024 – will apply from 2023/24 report onwards but on a best endeavours basis for 2023/24 only.

- **Economic Activity of Public Bodies (Overseas Matters) (EAPBOM) Bill** - also known as the Boycotts, Divestments and Sanctions Bill. Seeks to prevent public authorities making decisions about investments resulting from political or moral disapprovals but will not prevent from complying with formal UK government sanctions.
- **Cost Control Mechanism 2020** – report published 29 February 2024, delayed due to outwaiting the McCloud outcomes. The mechanism measures the cost of LGPS and any changes of more than 3% means a review of benefits is triggered. No requirement for change required.

3. Pension Fund Accounts (Agenda item 6 – supplementary pack)

- 3.1 Committee noted the unaudited Pension Fund accounts for the year ending 31 March 2024 and considered if there were any issues needed to be brought to the attention of the Audit Committee.**
- 3.2 The Audit Committee have the responsibility to approve the Authority's full statement of accounts, which include the Pension Fund accounts.
- 3.3 The Accounts have been compiled in line with the Chartered Institute of Public Finance & Accountancy (CIPFA) "LGPS Funds Accounts 2020/21 example accounts."
- 3.4 Key movements to note from the 2023/24 accounts are:
- The Net Assets of the Fund has increased to £969m for 2023/24 from £896m in 2021/22, an increase of (£73m).
 - The increase of (£73m) is compiled of change in market value of investments (£54m), investment income of (£18m) and net additions of cash of (£1m).
- 3.5 The Accounts and Audit (amendment) Regulations 2022 (SI 2022/708) came into force on 22nd July 2022 and revised the statutory deadline for publishing the audited financial statements to 30 September for 2022/23 accounts and the subsequent 5 years, until the 2027/28 accounts have been completed. The deadline for the Council to produce and publish draft accounts has reverted back to the 31st May for the 2022/23 accounts and beyond as per the Accounts and Audit Regulations 2015.
- 3.6 The Authority and the Pension fund accounts were published in line with the statutory deadline.
- 3.7 Report presented to Pensions Committee provides evidence to the Board as to the Fund's compliance with scheme regulations relating to the governance and administration of the scheme.**

4 2024/25-2026/27 business Plan /Annual report on the work of the Pensions committee 2023/24 (Agenda item 7 supplementary pack)

- 4.1 Committee noted the work of the committee during 2022/23 and agreed the Business Plan for the three year rolling period 2024/25 to 2026/27. They also considered whether to make any additions to the work plan.**
- 4.2 The report sets out the work undertaken by the Pensions Committee during 2023/24 and the plan of work for the forthcoming three years.
- 4.3 The Business Plan is compiled in line with CIPFA guidance “Principles for Investment Decision Making & Disclosure in the LGPS” and suggests that the Business Plan is submitted to the committee for consideration.
- 4.4 To meet best practice, the Fund considers it appropriate to prepare a report on the activity of the Committee on an annual basis and this will be adopted as the Business Plan.
- 4.5 The report is also required to meet the Council’s Constitution – Part 4 Rules of Procedure - ordinary meetings of the Council will receive reports for the previous year’s Pension Committee activity from the Chair.
- 4.6 In addition to the annual cyclical work programme set out in Appendix A - Annex B of the Business Plan, there are a number of key issues that are likely to be considered by the Pensions Committee in the coming year and beyond and will be added to the meeting cycle as appropriate:
- a. Continued development/monitoring of Climate Risk Policy
 - b. Develop and implement approach for climate related engagement
 - c. Task Force on Climate Related Financial Disclosures (TCFD) reporting compliance/gap analysis (subject to regulatory publications)
 - d. Implementation of the interim and long-term Investment strategy
 - e. Consider Local investment & Levelling Up agenda (ongoing considerations at present)
 - f. Potential consideration of Private Equity investment (consider alongside local investment)
 - g. London CIV Pooling progression/Continued consideration of transfer of assets to the London CIV (particularly Multi Asset Credit, Index linked assets)
 - h. Equity portfolio review – including review of emerging market allocation and reflecting net-zero related commitments
 - i. Review of RLAM mandate & Index linked gilts objectives
 - j. Consideration of reallocating into Private Debt/Infrastructure close ended funds
 - k. Governance review of London CIV
 - l. Planning for SAB Good Governance guidance compliance - once guidance is issued
 - m. TPR New Code of Practice compliance check – develop action plan

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- n. New training policy to reflect Good Governance and TPR compliance
 - o. Risk Register –independent oversight of scoring
 - p. Cost transparency analysis
 - q. New contract – Actuary (current contract expires 15 July 2025)
 - r. New contract – Investment Advisor (current contract expires 31 March 2026)
 - s. New contract – Custodial Services (current contract expires 30 September 2026)
 - t. Administration issues i.e. ongoing work associated with the McCloud ruling – readiness for Pensions Dashboard
 - u. New Employer admissions
 - v. Covenant Risk Review
 - w. SAB developments
 - x. Consideration of LGPS Regulation changes and consequential policy, as applicable
 - y. Topical issues discussed as appropriate
 - z. Continued training and development (include training programme following Local Elections May 2026)
- 4.7 The above list is not exhaustive nor set in stone and Members were asked to consider if there are any other areas of work that they require to be included.
- 4.8 **Report presented to Pensions Committee provides evidence to the Board as to the Fund’s compliance with scheme regulations relating to the governance and administration of the scheme.**
- 4.9 **When considering its own work plan the Local Pension may want to consider how it will assist the committee in delivering the work plan.**

5 Pensions Administration Budget (Agenda item 8)

- 5.1 **Committee approved the 2024/25 budget of £0.648m for the provision of London Pensions Fund Authority (LPPA) Pension Administration service.**
- 5.2 The Council has delegated its pension administration functions to LPPA via a shared service agreement with Lancashire County Council. As the LPPA is a non- profit entity the contract is based on a full cost recovery basis. The fund has the option to not agree the proposed budget, in such case the budget will be set at the current budget plus an increase based on Consumer Price Index (CPI) as at January.
- 5.3 Budget increased by £86,391 (15.38%) on 2023/24 budget. 5.37% attributable to an increase in membership numbers, up by 1,077 and 9.51% attributable to increase in price per member of £2.66 from £27.98 to £30.64).

5.4 The Fund refers proposed budget to its Pension committee for approval. The cost of Pension Administration is recharged annually to the Fund, the contract costs are factored into the budget and any increase in contract costs, once agreed, the budget will be increased and the additional cost met within the Fund.

5.5 **Report presented to Pensions Committee provides evidence to the Board as to the Fund's compliance with scheme regulations relating to the governance and administration of the scheme.**

6 Review of Pensions Fund Admission Policy (Agenda Item 9 - policy in supplementary pack)

6.1 **Committee approved the amendments to the Admissions policy to reflect the current Funding Strategy Statement**

6.2 The Admissions Policy was reviewed by the Funds Actuary and updated to reflect:

- the new pass through requirements of the Funding Strategy Statement (FSS)
- simplification of outsourcing/admissions for academies and Local Education Authorities (LEAs) and to achieve additional employer guarantees for academy outsourcing (via the newly extended Department for Education (DfE) guarantee). The new DfE guarantee will now apply to all academy outsourcings as long as they are done on a pass through basis and are closed to new entrants.

6.3 The revised FSS was approved at the Committee meeting of 7 November 2023 and applies to all employers in the Fund from 1 January 2024.

6.4 **Report presented to Pensions Committee provides evidence to the Board as to the Fund's compliance with scheme regulations relating to the governance and administration of the scheme.**

7 Admission of CleanTEC Services LTD & Aspens Services Ltd (Agenda item 10)

7.1 The Committee agreed to admit CleanTec Services Ltd & Aspens Services Ltd (catering to the Employer Learning Academy Trust) into the Havering Pension Fund, enabling the 3 members with CleanTec and 24 members with Aspens Services continued membership to the LGPS.

7.2 CleanTEC contract, providing catering services to Elm Park School, commenced 13 June 2023 and due to expire 12 June 2027

7.3 Aspens Services Ltd, providing catering to the Employer Learning Academy Trust, commenced 1 September 2023 and due to expire 31 August 2026.

- 7.4 CleanTEC and Aspens will be admitted on a pass through basis and therefore they are not required to obtain an indemnity bond. The employer rate for both employers as per the Funding Strategy Statement is set at 25%.
- 7.5 Admissions to the Fund follow the provisions of The Local Government Pension Scheme (LGPS) Regulations 2013, Schedule 2, Part 3 and follows New Fair Deal Guidance.
- 7.6 **Report presented to Pensions Committee provides evidence to the Board as to the Fund's compliance with scheme regulations relating to the governance and administration of the scheme.**

IMPLICATIONS AND RISKS

Financial implications and risks:

This report provides feedback from items that have already been presented to the Pensions Committee on the 25 June 24.

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 25 June 24

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 25 June 24

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:

This report provides feedback from items that have already been presented to the Pensions Committee on the 25 June 24

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.

BACKGROUND PAPERS

Background Papers List

None