

PENSION BOARD			
REPORT TITLE	Pensions Board – General Update		
KEY DECISION	No	Item No:	
WARD	N/A		
CONTRIBUTORS	Katharine Nidd - Head of Strategic Finance, Planning and Commercial Shida Ashrafi - Interim Head of Pensions and Payroll		
CLASS	Part 1	Date:	16 March 2023

1. PURPOSE

- 1.1. This paper presents any standing items on the agenda and provides the Board with an update on several general matters to have arisen since the last meeting.

2. RECOMMENDATIONS

- 2.1. Members are recommended to:

- note the changes to the Statement of Accounts 2021/22 as presented to Council on the 18 January 2023;
- note the draft report template for the reporting late payment of pension contributions;
- note the Retendering advisory and actuarial services;
- note the Net Zero Target Setting report;
- note the draft Responsible Investor Beliefs Statement.

3. CURRENT CONSIDERATIONS

2021/22 Statement of Accounts and Annual Report

- 3.1. The draft Pension Fund Statement of Accounts for the year 2021/22 were presented to the Pension Board at the December 2022 meeting. The audit of these had commenced but had not yet concluded at that point.
- 3.2. On the 18 January 2023 the draft 2021/22 Statement of Accounts and Annual Report were tabled at Full Council, with the recommendation that Council approve delegation to the Section 151 Officer, in consultation with the Chair of the Audit Panel, to agree any changes to agreed audit adjustments included within the addendum, and to agree the final Statement of Accounts for publication.

3.3. The draft Pension Fund Accounts as presented to the Council had been amended from those presented to the Pension Board in December and the main changes were the following:

- The valuation of the fund has increased by £2.5m from £1,747m to £1,750m due to an adjustment to the valuation of the funds.
- The employer contributions were overstated by £9m and this was compensated by the transfers out being overstated by £9m. Therefore there was a net change in dealings with members of £9k.
- The above changes have been recognised in the changes to the relevant notes throughout the accounts.

3.4. The audit was nearing completion and it was not expected that there will be substantive amendments made to the draft accounts tabled at Council. Therefore the Pension Investment Committee was asked to i) note these changes from November 2022, ii) note that Council has delegated to the Section 151 Officer the approval and agreement of the final Statement of Accounts for 2021/22, and iii) agree that the Chair will, in consultation with officers, agree the final Pension Fund Annual Report 2021/22 for publication.

4. Reporting late payment of contributions

4.1. There is a requirement under the Pension Regulator's Code of Practice to have a recorded process for monitoring payment failures and the reporting of material payment failures to the regulator and members.

4.2. The Codes of practice are not statements of the law and there is no penalty for failing to comply with them. However there is a duty on managers to report material failures to pay contributions timely and within a 'reasonable period' within which to report to the regulator and members.

4.3. The draft procedure template (See Appendix 1) sets out what is required such as:

- Process to monitor contributions
- Scheme set up process
- Action taken to resolve overdue contributions
- How is information provided to members
- Reporting material payment failures
- Defining a 'reasonable period' for reporting to the regulator and members
- Method of reporting to the regulator

4.4. The draft procedure template will be completed by officers and brought back to the next Pension Board.

5. Retendering advisory and actuarial services

5.1. This activity had been placed on hold due to the triennial valuation and the detailed work being undertaken by the actuary. This work is concluding and it is intended that officers will begin the process of procuring new advisory and actuarial services contracts. It is intended that the new contract will be in place to support the detailed

planning and delivery of the implementation of the new investment strategy and principles which are in the process of being developed.

- 5.2. The Pension Investment Committee agreed that officers can proceed with the procurement of actuarial and investment advisory services using the National Framework for LGPS Procurement, using Lots 1 – 3 on the Actuarial Benefits and Governance Framework and Lots 1 – 2 on the Investment Management Framework, and delegate to the Executive Director for Corporate Resources the award of the relevant advisory support contracts.
- 5.3. An assessment of procurement options has been undertaken and these, and the preferred option is set out below.

Option 1: Do Nothing

The current contract has now expired and can no longer be further extended. The Pension Regulations require that the Council has regard to the proper advice of its expert independent advisors in relation to decisions affecting the Pension Fund, and therefore a new contract must be properly procured and put in place in order to comply with the Regulations.

Option 2: Council led procurement

The Council has a central procurement service who would be able to support officers to undertake a Council led tender process. However, the specialist nature of these services, and the requirement to run a procurement process compliant with UK legislation (given the value of the procurement) which would take approximately 6 – 9 months means that this would be more resource intensive and costly than the use of an existing compliant framework.

Option 3: Use of Compliant Framework

There are a number of established frameworks which are available to the Council, and which have been established via a Public Contracts Regulations 2015 compliant process which has already demonstrated value for money. Officers have reviewed a number of these and determined that the preferred framework is the National Framework for LGPS Procurement. This framework has been established by 13 LGPS funds (the founding authorities); including the London Borough of Hackney, and is a not-for-profit enterprise established to support LGPS funds secure high-quality, value for money independent expert advisors. Contracts awarded under this framework can have a contract length of up to 7 years for investment support and 10 years for actuarial support, but also contain a 'no fault' break clause enabling termination with 3 months notice.

- 5.4. Officers consider that Lots 1 - 3 on the Actuarial Benefits and Governance Framework and Lots 1 – 2 on the Investment Management Framework would provide the range of services required by the Fund. A further benefit of the framework is that it allows for either two tenders for each of actuarial and advisory services, or the potential to indicate that you wish to appoint a single provider for both. Procurement will be via a mini tender competition estimated to take approximately 4 – 6 weeks.
- 5.5. Whilst the Framework is a not-for-profit enterprise there is a once off fee payable upon use of the Framework to cover the costs of establishing and administering it, and these would be £3k for actuarial and £5k for investments, however the efficiency gained via the use of an established framework with competitively tendered pricing structures justifies the fee payable.
- 5.6. There are a number of reputable providers on each relevant framework Lot, for Lots 1 – 3 on the Actuarial Benefits and Governance Framework this includes: Aon

Solutions UK Limited, Barnett Waddingham LLP, Hymans Robertson and Mercer Limited. For Lots 1 – 2 on the Investment Management Framework this includes: Aon Solutions UK Limited, Barnett Waddingham LLP, Hymans Robertson LLP, Bfinance, Isio, Mercer Limited and Redington.

6. Net Zero Target Setting

- 6.1. The Pension Investment Committee received a copy of the draft Responsible Investor Beliefs statement for consideration and agreed the report.
- 6.2. The statement states that “the Fund believes that it is necessary and desirable to set a net-zero investment emissions target. It will prioritise this activity to ensure a credible plan for the delivery of an agreed net zero objective is constructed.”
- 6.3. The setting of a net-zero target, as with the agreement of any key target or strategic aim, is not to be undertaken lightly. It is important that in setting this target that PIC has both the requisite level of understanding of the complexities within this area, as well as the relevant level of data in order to be able to make a considered and informed decision.
- 6.4. Therefore, officers and Hymans Robertsons, recommended to PIC that over the next 3 – 6 months the following main tasks would be undertaken.
- 6.5. Training and Discussion (March – April 2023). There will be a specific session or workshop for PIC on “**Net Zero considerations**” to be held with Hymans Robertson and the **Pension Board** will also be invited as part of a training and leaning opportunity.
- 6.6. The Net-Zero workshop will include consideration of the following:
 - the difference between possible target dates;
 - reliance on offsets if the Fund chooses a very early commitment (i.e.2030);
 - availability of net zero investment options;
 - the difference between the Council’s net zero commitment versus the net zero commitment from the Pension Fund (focusing specifically on control and geography amongst other considerations).
- 6.7. Carbon Baseline (February – May 2023). The Fund has not undertaken a carbon baseline assessment for a number of years, and not since the completion of the key objective of achieving the transfer of equities into low carbon mandates. It is vital that in setting a net zero target that PIC understand what the current carbon baseline is in order to understand what a challenging, but achievable target date might be. Officers are seeking to instruct this carbon baseline, which will be undertaken on the Funds assets as at the 31 March 2023, and is expected to be available for the PIC’s consideration in the May or June meeting.
- 6.8. The results of the carbon baseline should be available for presentation to PIC at its next meeting. This will give the members of PIC a better understanding and knowledge and together with the updated relevant data it will enable them to set the Fund’s net zero target. The results of the work undertaken will be brought back to the Pension Board at a later meeting.

7. Responsible Investor Beliefs Statement

- 7.1. The Pension Investment Committee members responded anonymously to the survey issued in November 2022, the results were aggregated and each statement was given an average score out of 5, with anything above 4 deemed to have sufficient interest to warrant inclusion as a belief. Anything above 3.5 was debated in further detail at the meeting as a “potential” inclusion, and anything below 3.5 was excluded by virtue of clear lack of collective support. It was agreed that the results of the survey, would be used to support the creation of the draft RI Beliefs appended to this report.
- 7.2. The Funds advisors, Hymans Robertson, used the outcomes from the survey and the subsequent discussion from the workshop on the 25 January 2023 to prepare the draft Responsible Investment Beliefs which as approved by the members of PIC. See Appendix 2
- 7.3. It was agreed that the updated Investment Strategy Statement and the Responsible Investment Policy should be published on the Pension Fund’s web site.

8. FINANCIAL IMPLICATIONS

- 8.1. There are no direct financial implications arising from this report.

9. LEGAL IMPLICATIONS

- 9.1. There are no direct legal implications arising from this report.

10. CRIME AND DISORDER IMPLICATIONS

- 10.1. There are no crime and disorder implications directly arising from this report.

11. EQUALITIES IMPLICATIONS

- 11.1. There are no equalities implications directly arising from this report.

12. ENVIRONMENTAL IMPLICATIONS

- 12.1. There are no environmental implications directly arising from this report.

APPENDICES

Appendix 1 – Process for monitoring payment failures template

Appendix 2 – Draft Responsible Investment Beliefs

FURTHER INFORMATION

If there are any queries on this report or you require further information, please contact either:

Katharine Nidd, Head of Strategic Finance, Planning and Commercial at
Katharine.Nidd@lewisham.gov.uk

Shida Ashrafi - Interim Head of Pensions and Payroll at
Shida.Ashrafi@lewisham.gov.uk

Chris Flower, Treasury & Investments Manager at:
Chris.Flower@lewisham.gov.uk