

**PENSIONS COMMITTEE 12 JANUARY 2022**

**Report title:** Lambeth Pension Fund – General Update January 2022

**Wards:** All

**Portfolio:** Cabinet Member for Finance and Performance: Councillor Andy Wilson

**Report Authorised by:** Strategic Director for Finance and Investment: Fiona McDermott

**Contact for Enquiries:** Robert Browning, Head of Treasury and Pensions, 07394 402801, [rbrowning@lambeth.gov.uk](mailto:rbrowning@lambeth.gov.uk)

**REPORT SUMMARY**

This paper provides members with an update on several general pensions related matters to have arisen since the last meeting.

**FINANCE SUMMARY**

There are no direct financial implications arising from the recommendations in this report.

**RECOMMENDATIONS**

1. That the report, together with the information in the accompanying papers, be noted.

## **1 CONTEXT**

- 1.1 The Pensions Committee is responsible for ensuring that the Fund is properly operated in accordance with all relevant legislation and best practice as advised by the Pensions Regulator, the Local Government Pension Scheme (LGPS), Scheme Advisory Board (SAB), the Department for Levelling Up, Housing and Communities (DLUHC) and the Chartered Institute of Finance and Accountancy (CIPFA), including both financial and administration matters.
- 1.2 The purpose of this report is to update the Committee on a number of pensions related matters to have arisen since the last meeting and of relevance to the Fund, including standing items on the London CIV, the Pensions Board and training opportunities.

## **2 PROPOSALS AND REASONS**

### **LONDON CIV**

#### **Funding and Fee Savings**

- 2.1 The most recent London CIV (LCIV) Business Update call took place on 16 December 2021, during which updates were provided on their current fund launch activity and new fund launch pipeline; the current fund offering is attached at Appendix One for information.
- 2.2 As at 30 November 2021 the LCIV had £13.5bn of assets under direct management (approximately £15.2bn including commitments). The Lambeth Fund is a key stakeholder in the LCIV, with approximately £1.07bn or 57% of the Fund's active assets invested directly in the pool as at 30 September 2021, one of the highest proportions of total Fund assets compared to other London boroughs.
- 2.3 The estimated net fee savings for the half year as at 30 September 2021 is £631k, which represents an estimate of additional fees that would have been paid if invested outside of the LCIV. The full year net fee savings forecast for 2021/22, after accounting for LCIV management fees and service charges, is approximately £1.2m (£938k in 2020/21).
- 2.4 The LCIV recently launched its new passive equity fund, "PEPPA" (Progressive Equity Passive Paris Aligned), at the beginning of December with £540m of investment across two client funds, and its next expected fund launch will be an alternative credit fund in January 2022. The LCIV is also planning to run a property workshop in January 2022 to discuss with client funds their interest in launching an as-yet-undefined property fund, which will be attended by Lambeth officers.

#### **Governance Update**

- 2.5 The LCIV Board and Shareholder Committee have reviewed the LCIV's draft annual budget for 2022/23 and recommended its approval at the AGM in January 2022. Whilst fixed fees charged to client funds will remain unchanged, it is expected that management fee income will increase as a result of existing asset under

management growth and expected future investment, which will offset the anticipated increase to LCIV costs. The budget recognises that an increase in resources is required to support the ongoing development of the LCIV in terms of new fund launches and greater operational complexity, and that compared to other pools the LCIV operates with disproportionately fewer resources, both financially and in terms of staffing.

- 2.6 In November 2021 the LCIV released to client funds its Investment Governance Document (IGD) which describes the procedures undertaken by its investment team to ensure the interests of client funds are protected, how it exercises investment oversight over the managers it has delegated authority to, and how its regulatory responsibilities have been exercised. The IGD has been approved by the LCIV's Executive Committee and will serve as a live document available to client funds via the LCIV's online portal.

### **Net Zero**

- 2.7 In late October 2021 and ahead of COP26 the LCIV became the first local authority pension pool to announce a 2040 net zero emissions target, in line with the Paris Agreement objectives to limit the global temperature rise to below 1.5°C. It has set interim targets for its investments that include a 35% reduction in carbon intensity by 2025 and 60% by 2030 across all fund ranges which it plans to achieve by decarbonising existing funds through targeted engagement and launching new net zero funds. Further detail is yet to be released, though officers have sought clarity on the detail behind the targets to help assess their credibility.

### **PENSIONS BOARD**

- 2.8 The Board last met on 20 October 2021 and considered the quarterly administration performance report for the Fund as well as the latest risk register. Updates included:
- statistics on key administrative workflows in the latest quarter, usage of the Fund website and the Member Self Service platform, and details of member complaints and responses in the period; and
  - the latest on the HM Treasury consultation on the cost control mechanism and exit pay reform.
- 2.9 As set out in the Terms of Reference of both the Committee and Board, and as a means of ensuring the good governance of the Fund, the Committee will work with and receive and consider reports from the Board and ensure that appropriate actions are undertaken as required. The Board can request information from the Committee and make recommendations which should be considered, and a response made to the Board on the outcome within a reasonable period of time.
- 2.10 The agreed process with the Committee and the Board is for these recommendations to be made via officers and raised at the next available meeting where appropriate so that the response or resolved action can be recorded in the meeting minutes.
- 2.11 The next meeting of the Board will take place on 26 January 2022.

## **EXTERNAL AUDIT**

- 2.12 At the time of writing, the Fund's external audit has been completed subject to minor disclosure amendments, and the auditors propose an unqualified audit opinion.
- 2.13 The draft statement of accounts was published on the Fund website as part of the 2020/21 Annual Report ahead of the statutory 01 December deadline. Once the necessary amendments have been signed off by the auditors, the final iteration of the accounts will be published on the website.

## **RESPONSIBLE INVESTMENT – UNITED NATIONS LETTER**

- 2.14 In late November 2021 a letter was sent to all LGPS Committee Chairs from a UN Special Rapporteur, Michael Lynk, on the situation of human rights in the occupied Palestinian Territory. It made several requests of the LGPS in respect of investments in the 112 companies listed by the UN as involved in specified activities related to the Israeli settlements in the Occupied Palestinian Territory, including divestment from those companies if applicable.
- 2.15 The LGPS Scheme Advisory Board discussed the letter at its meeting on 13 December 2021 and agreed that the Chair and Vice Chair of the Board will engage with the LAPFF Chair to discuss a proposed response to the letter on behalf of the LGPS; they will also be meeting with Michael Lynk early in the new year. The Board has recommended that LGPS funds may wish to wait for further clarification before providing any individual responses, and also note that several FOI requests have been submitted to LGPS funds in relation to this matter.
- 2.16 The Lambeth fund has already received an FOI in relation to the Fund's holdings in the 112 companies, and preliminary investigations indicate that the Fund has indirect exposure of approximately £5.5m across 6 of the 112 companies on the UN list.
- 2.17 Officers will await the outcome of the SAB/LAPFF engagement with the UN and liaise with our fund managers in the meantime to better understand our exposure.

## **ACTUARIAL UPDATE – SECTION 13 REPORT**

- 2.18 Under Section 13 of the Public Service Pensions Act 2013, DLUHC are required to carry out a review of all LGPS local fund valuations to ensure they comply with LGPS regulations, that there is consistency between funds, and to test for solvency and long-term cost efficiency. DLUHC commissioned the Government Actuary's Department (GAD) as the suitably qualified person to carry out this analysis; GAD works with funds and their actuaries, including significant engagement with relevant funds, to analyse valuations and report on progress against the evaluation criteria, making recommendations for improvement where appropriate.
- 2.19 The Fund's actuary, Hymans Robertson, submitted data to GAD on the Fund's behalf back in May 2020 in respect of the 2019 valuation; draft results of the analysis were released by GAD in August 2021, and the final report was published in December 2021.

2.20 The report confirmed that the Lambeth Pension Fund 2019 valuation satisfied all of the review criteria, receiving green flags for all tests in respect of the solvency and long-term cost efficiency of the Fund. In terms of the LGPS as a whole, the report notes that:

- Total LGPS assets grew from £217bn in 2016 to £291bn in 2019;
- Total LGPS liabilities in 2019 amounted to £296bn and are growing much faster than the size of the employers backing them ;
- The aggregate funding level on prudent local bases improved from 85% in 2016 to 98% in 2019, due in large part to strong asset returns over the three-year period.
- The aggregate funding level on GAD's best estimate basis is 109% at 2019 (using assumptions without allowance for prudence).

2.21 Based on local funding bases (i.e. using local assumptions) the Lambeth Fund was valued at 82% funded in 2019, ranking it 82<sup>nd</sup> out of 88 funds (the top fund, Kensington and Chelsea, was valued at 125%). However, based on a standard funding basis which allows for a more like-for-like comparison to other funds, Lambeth was ranked 45<sup>th</sup> at 107% funded, suggesting the Fund's local funding basis is, relatively, more prudent than other funds (the Fund is the 7<sup>th</sup> highest ranked fund in respect of the percentage difference in funding levels between local and standardised bases).

2.22 The report made a number of recommendations to be considered by the Scheme Advisory Board and the actuaries ahead of the 2022 valuation process, mostly aiming to improve reporting consistency between funds but also noting that future section 13 reports will consider how climate risk assumptions have been factored into the valuation process.

### **TRAINING UPDATE**

2.23 A selection of external conferences, workshops and other training opportunities has been shared with members at Appendix Two; these events have been specifically identified as relevant to the Fund and/or members' interests. Should members decide to attend any of the sessions or have identified other training they would like to attend, please inform the Fund's Governance and Compliance Officer Sarah Hargraves ([SHargraves@lambeth.gov.uk](mailto:SHargraves@lambeth.gov.uk)) so that member training records can be updated.

2.24 These sessions form part of the main training offer to members; other sessions arranged by fund managers or advisors will be held throughout the year and outside of formal meetings in line with the Training Plan. It is vital that members continue to develop and maintain their knowledge of the overall LGPS landscape to fulfill statutory obligations and compliance requirements.

- 2.25 Officers distributed a skills audit to members of the Committee in December 2021 as a means of individual self-assessment against the key knowledge and skills requirements set out by the Chartered Institute of Public Finance and Accountancy (CIPFA), to identify where tailored training may be targeted to address areas of concern. The full results of the audit will be presented to the Committee at the next meeting.

### **3 FINANCE**

- 3.1 There are no direct financial implications arising from the recommendations in this report.

### **4 LEGAL AND DEMOCRACY**

- 4.1 The Lambeth Pension Fund is run in accordance with the Local Government Pension Scheme Regulations 2013 enacted along with other Regulations under the Superannuation Act 1972 and the Public Service Pension Act 2013, and is for the benefit of Council employees and outside organisations which have entered into an agreement with Lambeth to provide pensions for their staff.

- 4.2 The Pension Committee must be mindful of their fiduciary duty to obtain the best possible financial return on the investments it administers within the investment strategy framework.

- 4.3 There are no additional comments from Democratic Services.

### **5 CONSULTATION AND CO-PRODUCTION**

- 5.1 Not applicable.

### **6 RISK MANAGEMENT**

- 6.1 Investment decisions involve taking risks that Members of the Committee should always bear in mind. Generally, risk is taken to mean the variability of returns. Investments with greater risk must usually promise higher returns than more 'stable' investments before investors will buy them. Members must consider the risk/reward trade-off; generally, the higher the potential return expected the higher the associated risk. Members in their capacity as Trustees bear that risk.

### **7 EQUALITIES IMPACT ASSESSMENT**

- 7.1 None for the purposes of this report.

### **8 COMMUNITY SAFETY**

- 8.1 None for the purposes of this report.

### **9 ORGANISATIONAL IMPLICATIONS**

#### **Environmental**

- 9.1 None for the purposes of this report.

**Health**

9.2 None for the purposes of this report.

**Corporate Parenting**

9.3 None for the purposes of this report.

**Staffing and accommodation**

9.4 None for the purposes of this report.

**Responsible Procurement**

9.5 None for the purposes of this report.

**10 TIMETABLE FOR IMPLEMENTATION**

10.1 Not applicable.

<b>AUDIT TRAIL</b>				
<b>Consultation</b>				
<b>Name/Position</b>	<b>Lambeth directorate/division or partner</b>	<b>Date Sent</b>	<b>Date Received</b>	<b>Comments in para:</b>
Councillor Andrew Wilson, Cabinet Member	Finance and Performance	20.12.2021	20.12.2021	
Dami Awobajo, Acting Strategic Director	Finance and Investment	20.12.2021	05.01.2022	
Christina Thompson, Director of Finance	Finance and Investment	20.12.2021	20.12.2021	
Hamant Bharadia, Assistant Director of Finance	Finance and Investment	20.12.2021	29.12.2021	
Andrew Pavlou, Legal Services	Legal and Democratic Services	20.12.2021	22.12.2021	
Marianna Ritchie, Democratic Services	Legal and Democratic Services	20.12.2021	22.12.2021	

<b>REPORT HISTORY</b>	
<b>Original discussion with Cabinet Member</b>	N/A
<b>Report deadline</b>	17 December 2021
<b>Date final report sent</b>	5 January 2022
<b>Part II Exempt from Disclosure/confidential accompanying report?</b>	No
<b>Key decision report</b>	No
<b>Date first appeared on forward plan</b>	N/A
<b>Key decision reasons</b>	N/A
<b>Background information</b>	N/A
<b>Appendices</b>	<ul style="list-style-type: none"> <li>Appendix One – LCIV Current Fund Offering – November 2021</li> <li>Appendix Two – Suggested Training Q1-Q2 2022.</li> </ul>