

# **Draft Conflicts of Interest Policy**

**London Borough of Harrow Pension Fund**

**December 2021**

## **1 Background**

- 1.1 This policy sets out how the London Borough of Harrow (the “Council”) will identify, manage and mitigate potential conflicts of interest that may arise in carrying out its role as the administering authority for the London Borough of Harrow Pension Fund (the “Fund”).
- 1.2 The Council recognises that its dual role as both an employer participating in the Fund and the body legally tasked with its management can produce the potential for conflicts of interest. Furthermore, those individuals involved in managing, overseeing or advising the Fund may, from time to time, find that they face competing incentives, financial or otherwise, as a result of their professional or personal circumstances.
- 1.3 It is important, therefore, that these potential conflicts are managed in order to ensure that no actual or perceived conflict of interest arises and that all the Fund’s employers, scheme members and beneficiaries are treated fairly and equitably.

## **2 Objectives**

- 2.1 To ensure that those involved in the operation of the Fund fulfil their duties under public law to act solely in the interests of The Fund’s employers and scheme members.
- 2.2 To provide confidence to scheme members, employers, regulators or any other interested parties that those responsible for the Fund are fully committed to identifying, managing and monitoring conflicts of interest.
- 2.3 To minimise the risk to the Fund that conflicts of interest arise that prejudice good decision making or any other aspect of the good management of the Fund.
- 2.4 To promote openness, transparency and a commitment to the Seven Principles of Public Life in all aspects of the Fund’s business.

## **3 Application of this policy**

- 3.1 This policy applies to all members of the London Borough of Harrow Pension Fund Committee, the local Pension Board, Section 151 officer, officers who carry out functions on behalf of the Pension Fund Committee and any third parties providing advice or services to the Fund.
- 3.2 Every individual covered by this policy must take individual responsibility for the management of potential conflicts of interest.
- 3.3 The Treasury and Pensions Manager will be responsible for ensuring that this policy is adhered to and that any processes for managing conflicts of interest are followed.

- 3.4 In any situation where the Treasury and Pensions Manager may have a potential or actual conflict of interest, the responsibility for ensuring that this policy is adhered to and that any relevant processes are followed shall lie with the monitoring officer for the Council.

## 4 Defining Conflicts of Interest

- 4.1 The Fund has adopted the definition of conflict of interest defined in The Public Service Pensions Act 2013<sup>1</sup>;

*“conflict of interest” , in relation to a person, means a financial or other interest which is likely to prejudice the person's exercise of functions as a member of the board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme).*

- 4.2 In addition to this policy there are other legal requirements which are also relevant to the Fund's management of conflicts of interest, these include;

- Regulation 108 of The LGPS Regulations 2013, which places duties on the Council, as the administering authority to the Fund, to be satisfied that Local Pension Board members do not have conflicts of interest on appointment to, or whilst a member of, the Board.
- The Localism Act 2011<sup>2</sup> requires elected members to comply with their own authority's code of conduct and to declare pecuniary interest and interests other than pecuniary interests.
- The 'Seven Principles of Public Life', also known as the 'Nolan Principles', with which any holder of public office is also expected to comply. These are;

**Selflessness** - Holders of public office should act solely in terms of the public interest.

**Integrity** - Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.

**Objectivity** - Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.

**Accountability** - Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.

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<sup>1</sup> Section 5(5)

<sup>2</sup> Chapter 7

**Openness** - Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.

**Honesty** - Holders of public office should be truthful.

**Leadership** - Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

## **5 Managing conflicts of interest**

5.1 The Council recognises that its dual role as both an employer participating in the Fund and the body legally tasked with its management can produce the potential for conflicts of interest to arise in certain areas. It is important that these potential conflicts are managed in order to ensure that no actual or perceived conflict of interest arises and that all the Fund's employers and scheme members are treated fairly and equitably

5.2 These areas are considered in more detail below.

### **Contribution setting for employers**

5.2.1 The setting of employer contribution rates must be done in a way that is fair and transparent. No employer or individual should be in the position to unduly influence the contribution setting process

5.2.2. The Fund achieves this in the following way:

- The Funding Strategy Statement sets out the Fund's approach to all funding related matters including the setting of contribution rates. This policy is set with regard to the advice of the Fund Actuary and is opened to consultation with all Fund employers before being formally adopted by the Pension Committee. The approach to contribution setting is based on specific employer characteristics such as its time horizon, strength of covenant and risk profile. This approach ensures consistency across all employers and removes the possibility of any employer receiving more, or less, favourable treatment.

### **Delivering the LGPS function for all employers**

5.2.3 All employers within the Fund are entitled to receive the same high-quality service and support from the Fund. Equally, the expectation on employers in respect of their obligations under the LGPS are the same for all employers. There should no perception that the Council receives more favourable terms with regards to the service received from, or the obligations expected to, the Fund.

5.2.4 The Fund's administration strategy will set out the way in which the Fund works with its employers and the mutual service standards expected. The strategy details how the Fund will assist employers to ensure that they are best placed to meet their statutory LGPS obligations. On occasions where an employer's failure to comply with required processes and standards has led to the Fund incurring additional cost, the policy also provides for that cost to be recovered from the employer in question. This strategy will be opened to consultation with all the Fund's employers and is operated in a consistent fashion across all the employer base

5.2.5 The pension fund is run for the benefit of its members and on behalf of all its employers. It is important therefore that the Fund's budget is set and managed separately from the expenditure of the Council. Decisions regarding pension fund resource are approved by the Pension Committee on recommendation from the S151 officer.

### **Investment decisions**

5.3 The primary investment objective of the Fund is to ensure that over the long term there will be sufficient assets to meet all pension liabilities as they fall due. Investment decision have an impact on all employers within the Fund and so should reflect the long-term requirements of the Fund.

5.3.1 The Investment Strategy Statement sets out how the Fund's money will be invested in order to meet future liabilities and contains the Fund's investment objectives and the asset classes in which it will invest. It also contains the Fund's approach to assessing environmental, social and governance risks and how it will act as a responsible asset owner with regard to engagement and voting shares for companies in which it is invested. The Statement also explains the Fund's approach to investments which deliver a social impact as well as a purely financial return.

5.3.2 The Investment Strategy Statement is a statement of the beliefs, objectives and strategies pertaining to pension fund investments and is separate to and distinct from any policies that apply to the Council. For example, the Council may have particular strategies regarding tobacco investment as a consequence of its public health duties. This should remain distinct from the Fund's investment strategy, as set by the Pension Committee and which is operated on behalf of all Fund employers. A similar situation arises in respect of the Council's policy regarding matters such as investment in local housing or other infrastructure within the local authority area, which remain distinct from the policies and strategies of the Pension Fund.

5.3.3 From time to time the Council may pursue certain climate related goals, for example a commitment to being carbon neutral by a certain date. Actions taken in pursuit of these goals may impact on members and employees of the Council in certain ways, for example members and staff may be required to pursue low carbon travel options when travelling on Council business. Where this is the case, members and employees carrying out work related to the management of the Fund will be subject to the same policies as all other Council members or staff, insofar as they reflect operational matters. However, decisions in respect of Fund investments are made by the Pension Fund Committee on behalf of all employers in the Fund and as such will follow separate and distinct policies and strategies.

5.3.4 All investment decisions are taken in accordance with the Investment Strategy Statement, following appropriate professional advice. No person with a conflict of interest relating to a particular investment decision may take part in that decision.

### **Standards and behaviours**

5.4 It is important that those managing the Fund adhere to the highest standards of public office.

5.5 The Council's Code of Conduct for Members applies to all members or voting co-opted members of the Council. In addition, the code has been adopted to apply to all members of the Pension Committee and Local Pension Board. The policy sets out the Council's approach to

- Standards of behaviour
- Registration of members' interests
- Disclosable pecuniary interests
- Sensitive interests
- Gifts and hospitality

### **Pooling**

5.6 The Council is one of 32 equal shareholders in the London LGPS CIV Ltd ("LCIV"). The shareholders, as LGPS administering authorities, also purchase investment management services from LCIV. The nature of this relationship has the potential to lead to conflicts of interest that must be managed. The following mechanisms are in place.

- 5.7 The interests of the shareholders of LCIV and those of any specific administering authority may not always be aligned. In order to ensure that the interests of the shareholders and of those procuring services from LCIV are both protected it is important that there is appropriate separation between the two functions. To achieve this the shareholder representative (who is also the Chair of the Pension Fund Committee) receives appropriate professional advice on any matters on the agenda for the shareholders' meeting where a conflict may arise.
- 5.8 London CIV maintains policies and procedures that mitigate the risks of perceived, potential and actual conflicts, which are summarised below;
- Ensuring all staff discuss any foreseen potential conflict of interest from voting or engagement with their line manager and report to the Compliance and Risk Team
  - Any potential conflicts arising over LCIV's approach to voting or engagement are discussed with the Chief Investment Officer ("CIO") and reported to the Compliance and Risk Team
  - Split voting in exceptional circumstances in the event of a potential conflict
  - The Investment Oversight Committee ("IOC") review voting decisions and engagement activities on a regular basis
  - Allowing any unforeseen conflicts of interests to follow an escalation procedure involving the CIO.
- 5.9 It is important that no administering authority has undue influence on decisions made by LCIV, and the LCIV's governance structure ensures that the LCIV may not favour of any individual or group of funds over the rest.
- 5.10 Given the nature of the LGPS the likelihood exists that individuals with particular skills may move from employment with an administering authority to LCIV or the other way around. This is perfectly appropriate, and the transfer of knowledge can be beneficial to all parties. However, it is important that there is no suggestion that any individual is in a position to influence unduly the recruitment or remuneration setting processes. This is managed by ensuring that all recruitment to LCIV and to the constituent funds is carried out through a robust, open, competitive recruitment process involving HR professionals.

### **Third parties**

- 5.11 The Fund requires its professional advisors, suppliers and any other third-party providing advice or services to have in place conflict management plans which set out how those firms will;
- declare any potential conflict of interest that exists on appointment;
  - communicate with the Council on any conflicts of interest that arise during the course of the contact;
  - put in place processes that will manage those conflicts;

## **6 How conflicts of interest will be managed**

In addition to the framework of policies set out in section 5, the Council will manage conflicts of interest in the following way;

### **6.1 Declarations of interest on appointment**

On appointment to the Pension Fund Committee, local Pension Board or to a role in the Finance Treasury and Pensions Team, or at the date of commencement of this policy if later, all individuals will be provided with a copy of this policy and be required to complete a declaration of interest form. This information will be collated in the Fund's' register of interests.

Advisers and service providers will be provided with a copy of this policy on appointment, or at the date of commencement of this policy if later. Advisers and service providers must declare any commercial or personal relationships which may result in conflicts of interest arising or which may give the perception that a conflict of interest exists or may do so in future.

### **6.2 Continued monitoring of potential conflicts of interest**

Any individual covered by this policy must declare, at the earliest opportunity, if their circumstances change in such a way that a new potential or actual conflict of interest arises, or if a former conflict ceases to apply. The register of interests will be updated accordingly.

If any individual covered by this policy becomes aware that a pension committee meeting, local pension board meeting or any other meeting concerning matters relating to the Fund will contain an item that places them in a conflicted position they must advise the Chair of the meeting and Treasury and Pensions Manager. The Treasury and Pensions Manager, taking such advice as they consider appropriate will be responsible for determining the action to be taken.

From time to time a conflict of interest may arise during a meeting which was not anticipated prior to the meeting. In such cases the individual to whom the conflict pertains should advise the clerk and make an immediate declaration. Any other person may make the clerk aware if they believe an individual participating in the meeting has a conflict of interest. The clerk of the meeting and the Chair, taking such advice as they consider appropriate will be responsible for determining the action to be taken.

### **6.3 Managing conflicts of interest**

The options for managing a conflict are as follows;

- The individual is excluded from the meeting for the period during which the item pertaining to the potential or actual conflict of interest is discussed. If the item is one in which papers are not made public under Part I of Schedule 12A of the Local Government Act 1972 then the member will not have access to those papers, or minutes relating to that item.
- If the item is one at which members of the public are allowed to speak, the individual may also speak having first declared their interest. The individual must not take any further part in that agenda item including the decision-making process.



- If the Director of Finance and Assurance, having taken advice that they consider appropriate, believes that an individual has a significant or persistent conflict of interest, such that it is impossible or impractical to manage and undermines their ability to carry out their role, the individual may be removed from their position.