

**Report for: Pension Fund
Committee**

Date of Meeting:	29 March 2023
Subject:	Performance Dashboard and Update on Regular Items
Responsible Officer:	Dawn Calvert – Director of Finance and Assurance
Exempt:	Appendices 3 and 4 which are Exempt from publication under paragraph 3, Part 1 of Schedule 12A to the Local Government Act 1972 (as amended) as it contains information relating to the financial or business affairs of any particular person (including the authority holding that information)
Wards affected:	None
Enclosures:	<p>Appendix 1: Investment Dashboard as at 31 December 2022 (Aon)</p> <p>Appendix 2: PIRC Local Authority Pension Performance Indicators to 31 December 2022</p> <p>Appendix 3: Manager Monitoring Report - Executive Summary (Aon) (Exempt)</p> <p>Appendix 4: Report from Independent Advisor (Exempt)</p> <p>Appendix 5: Fund Valuation as at 31 January 2023</p>

Section 1 – Summary and Recommendations

This report updates the Committee on regular items as follows:

- Draft work programme for 2023-24 on which the Committee's comments and agreement are requested.
- It includes the investment and management performance dashboard report summarising key fund performance and risk indicators and PIRC Performance Indicators
- Fund performance to 31 December 2022 and 31 January 2023
- Updates on Pension Board and Audit of Annual report and Accounts for 2021-22

Recommendations:

The Committee is requested to:

1. Review and to comment as necessary on the performance and investment dashboard report
2. Approve the draft work programme for 2023-24.

Section 2 – Report

A. Introduction

1. This report updates the Committee on regular items as follows:
 - Draft work programme for 2023-24 (Sub-section B)
 - Investment and Manager Performance Dashboard (Sub-section C) and Appendix 1-4
 - Fund Performance and actions for periods ended 31 December 2022 (Sub-section D and Appendix 5)
 - Issues raised by Pension Board (Sub-section E)
 - Audit of 2021-22 Annual Report and Accounts (Sub-section F)
 - Other matters

B Draft Work Programme 2023-24

2. The dates set for future meetings of the Committee in the 2023-24 municipal year had not been set at the time of writing this report. They are expected to be agreed by the Cabinet on 16th March 2023. Officers will update the Committee accordingly at the meeting.
3. An outline work programme has been drafted – the following items are currently expected to be reported to the Committee's quarterly meetings:

Meeting	Item
All Meetings	Regular Items update <ul style="list-style-type: none"> - Work Programme - Pension Board Items - Performance - Fund valuation / Dashboard - Manager Monitoring
June 2023	Outcome of Audit of Accounts for 2021-22
	External Audit Plan for 2022-23
	Review of Governance Compliance Statement
	Review of Pension Fund Risk Register
	Investment Strategy Review
September 2023	Draft PF Annual report 2022-23
	Review of Internal Controls at Investment Managers
	LCIV and Investment Pooling Update
	Actuarial Services Contract – outcome of tender process
	Investment Strategy Review
December 2023	External Audit Report on 2022-23 Accounts
	Review of Pension Fund Risk Register
	Investment Consultancy Services Contract – outcome of tender process
	Investment Strategy Review
March 2024	Investment Strategy Review
	LCIV and Investment Pooling Update
	Climate Change Reporting Update

4. All meetings are currently scheduled to start at 6.30pm. It is intended that a training session will be held before each meeting, beginning at 5.30pm. Detailed arrangements for the training sessions and meetings will be confirmed nearer the date.
5. The Committee will have the opportunity to update this programme but are invited to comment on the draft above and agree it at this stage. The list will be augmented as necessary during the year.
6. In addition to the “regular” quarterly meetings, the Committee may wish to schedule other (informal) sessions for specific reasons – e.g. in 2022 the Committee has had sessions covering Responsible Investment and to identify a replacement Emerging Markets Equity Manager. The paper on the Investment Strategy Review elsewhere on this agenda suggests a detailed session to draw out the Committee’s preferences for developing the strategy ahead of the June Committee meeting. The Committee may

also wish to consider whether it wishes to have a “manager review day” this year.

C Summary Performance Dashboard for Period Ended 31 December 2022

7. Attached as **Appendix 1** is a summary investment performance dashboard produced by Aon. It is designed to provide summary reporting and to streamline the performance reports presented to committee.
8. The investment dashboard shows the Pension Fund’s estimated Investment Funding Level of 112% as at 31 December 2022 and the fund assets (£927m) and liabilities (£825m). This estimate of liabilities is a rolled forward projection based on the 2022 actuarial valuation, the initial results of which were reported to the Committee at its last meeting.
9. The estimated funding level has improved since the 2022 valuation. This is driven by the fact that the expected return (discount rate) has increased materially since the valuation largely driven by increasing interest rate expectations. This has reduced the liabilities substantially. The assets have held up well over what has been a volatile period in financial markets and their values have not dropped to the same extent as the liabilities – hence the increased funding level. This update is at a single point in time, during a period of volatility in markets. Further market movements will lead to further fluctuations in funding level.
10. It should be noted also that the 112% funding level relates only to “past service” benefits (i.e. service accrued to date). As a scheme which is “open” (i.e. both to future accrual of benefits for existing members and to new joiners), the Fund will also have to meet significant liabilities in respect of future service, which will in turn depend on pay levels and other factors. No de-risking actions are recommended at the current time.
11. The 2022 Triennial valuation is almost completed – the Actuary will report elsewhere on the agenda on the final position, and his report will be issued by 31 March 2023.
12. The Dashboard includes a summary of asset allocation relative to the strategic benchmark. It also shows the current allocation made to the London CIV or under fee arrangements negotiated by the CIV (77.8%) and a summary of manager performance and manager rating. The Strategic Benchmark allocation to assets pooled or counted as being pooled is 82.5%. The commitments which are yet to be drawn down in respect of the LCIV Infrastructure and LCIV Renewables Infrastructure Funds account for most of the gap.
13. The Fund subscribes to the performance data service provided by Pension and Investment Consultants Limited (PIRC) The PIRC performance report is attached as **Appendix 2** to this report. The dashboard summarises the quarter, 1-year, 3-year and 5-year performance. The Fund outperformed its benchmark in the last quarter of 2022, but for all longer timeframes performance was below the fund benchmark. This is in part due to the poor

performance of the two equity managers which the Fund has replaced in the period since March 2021.

14. The second part of **Appendix 2** (also provided by PIRC) shows a summary of the performance of LGPS funds generally. This is taken from PIRC's database of 63 LGPS funds. Whilst the data is helpful as background information, the Committee should bear in mind that each LGPS Fund has its own investment strategy reflecting its own circumstances (funding position, membership profile, maturity, cash flow etc) – and hence asset allocations will differ significantly. For example, some funds will have had higher allocations to growth assets than LBH, others more cautious strategies.
15. **Appendix 3** Manager Monitoring Report - Executive Summary reports on managers who have received the Aon “qualified” or “in review” rating. This is summarised on the dashboard ‘Manager in Focus’ section. **Appendix 4** sets out the comments of one of the Fund's Independent Advisors in respect of the various managers' performance and other related information. **These appendices (3 and 4) are exempt, so any discussion of the detail therein will need to be undertaken in Part II of the meeting.**

D Fund Performance and Valuation for Period Ended 31 December 2022 and subsequent activity

16. **Appendix 5** sets out the change in the market value of the Fund's investments from 31st March 2022 to 31st January 2023. The table has been ordered to align the various investments with the three high-level “bucket” groupings approved under the Investment Strategy Review – Equities, Diversifying Return Assets and Risk Control Assets. The value of the Fund at 31st December 2022 rose to £927m in the quarter from £899m (at 30th September 2022).
17. After three negative quarters, values of both equities and bonds increased during the quarter. The value of sterling also rose following the challenges at the end of the previous quarter – this impacted on the value of those stocks denominated in other currencies, with the Fund's currency hedging mandate partially mitigating that impact. Property values fell significantly during the quarter
18. In accordance with the decision of the Committee at its October meeting, and on advice from Aon, some rebalancing was carried out as follows
 - Withdrew £15m from LCIV Global equity Focus Fund
 - Withdrew £15m from Blackrock passive equity
 - Invest £12m in Blackrock Sterling Corporate Bonds
 - Invest £12m in Blackrock Passive Index Linked Gilts
 - Invest £5m in Blackrock Sterling Liquidity (cash) fund
 - Retain £1m in Nat West for cash flow purposes.

These transactions were completed during November 2022 and have resulted in the Fund being closer to its strategic benchmark allocations.

19. During the quarter there were several drawdowns against the Fund's commitments to the LCIV Infrastructure Fund (£5.5m approx.) and the LCIV Renewables Infrastructure Fund (£0.4m approx.). Two further drawdowns totalling £1.1m for the LCIV Renewables Infrastructure Fund were paid in January and February 2023. That fund is has now drawn down 33.1% of commitments, and the LCIV Infrastructure Fund has drawn down 66.5% of commitments. Further drawdowns are expected shortly. As previously approved by the Committee, these drawdowns are being mainly funded by withdrawals from the Insight DGF, with the remainder from cash balances.
20. During January 2023, markets generally moved upwards, resulting in an increase in the value of the Fund's investments to £958.1m. Whilst the at the time of writing this report details of the valuation at 28 February 2023 had yet to be received from some managers, those received so far indicate a small reduction in the total asset valuation from the January position. The February asset valuation will be circulated as late material.
21. LaSalle Property Fund – a report on this matter is included elsewhere on the agenda for this meeting and will be considered in Part 2 of the meeting.

E Meetings of Pension Board

22. At each meeting, the Board considers reports on
 - Pensions Administration Performance, which include legislation updates and the work of the Scheme Advisory Board,
 - Matters considered by this Committee,
 - Its future work programme.
23. In addition, at its meeting on 1 December 2022 the Board considered reports on the following subjects
 - The 2022 Triennial Valuation
 - Review of the Pension Fund Risk Register
24. The Board's final meeting of the Year was on 2 March 2023. At that meeting it considered the following items
 - Draft Responsible Investment Policy – the Board's comments are included in the report elsewhere on this agenda
 - Triennial valuation (including a presentation from the Actuary) – the Board's comments on the draft Funding Strategy Statement are again included in the report elsewhere on this agenda.
 - London CIV and Investment Pooling
25. The dates of the Board's meetings in 2023-24 were still to be confirmed at the time of writing this report.

F Annual Report and Accounts 2021-22 – Update on Progress of Audit

26. At its October meeting the Committee reviewed the Fund's draft Annual Report and Accounts for 2021-22. The audit of these is being carried out by Mazars. This audit is largely complete – there have been no material changes to the draft accounts presented to the Committee in October 2022, and only a small number of presentational and disclosure changes to some

of the Notes to the accounts. However, the audit cannot be completed until the audit of the Council's own accounts is finalised – the reason for this is that until that happens the auditor is required to confirm that the Pension Fund Annual Report and Accounts align with the Council's main accounts, and there are some technical issues being worked through in respect of the latter. Other LGPS funds and administering authorities are experiencing similar issues. The auditors will be reporting to the next meeting of the Governance, Audit, Risk Management and Standards Committee in April 2023.

27. The auditors, Mazars, are aware that this Committee wishes them to present their report on the outcome of the audit – this is scheduled for the Committee's next meeting.

G Other Matters – Government Consultations affecting the LGPS

28. In February 2023, a small consultation on changing the dates for “indexation” of CARE benefits was published – the intention of this is to simplify the position for active and deferred members because of the impact of uprating on the annual allowance and tax positions which would be unusually high this year and occur because the tax year and indexation dates currently are not aligned. Initial impressions, confirmed by analysis by Hymans Robertson, indicate that the proposals would have the intended impact. However, the short timescale for implementation is likely to provide some technical challenges for software providers. A link to the Consultation is below.

[Annual revaluation date change in the Local Government Pension Scheme \(LGPS\) - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/annual-revaluation-date-change-in-the-local-government-pension-scheme)

29. A Government consultation on the McCloud remedy for public sector pension schemes was published in December 2022. This closed on 10 February 2023, the response by the Government is awaited and Regulations are expected to be laid in “Spring 2023”. There will need to be specific LGPS Regulations for the implementation of the remedy. covering this. A link to the Consultation is below.

<https://www.gov.uk/government/consultations/draft-regulations-for-the-mccloud-remedy/consultation-on-draft-regulations-for-the-mccloud-remedy#executive-summary>

30. On 30 January 2023 the Government published a Consultation on proposed changes to arrangements for cost sharing (between scheme members and employers). The Consultation closes on the 24 March 2023. The cost management process is overseen by the Scheme Advisory Board. The changes being considered are intended to align the mechanisms with those for other public sector schemes. A link to the consultation is below.

<https://www.gov.uk/government/consultations/local-government-pension-scheme-changes-to-the-scheme-advisory-board-cost-management-process/local-government-pension-scheme-changes-to-the-scheme-advisory-board-cost-management-process>

31. The Regulations implementing the increase in annual pension benefits for the LGPS were still awaited at the time of writing this report. However, the

expectation remains that an increase of 10.1%, in line with the annual CPI increase to September 2022 will be formally approved.

32. Previously we had expected a major consultation for the LGPS – covering a range of topics including investment pooling, investment in “levelling up” and infrastructure, the good governance review as well as the McCloud remedy and cost sharing. Apart from the specific items above, the major consultation is still awaited. However, in HM Treasury’s Budget “red book” published on 15 March 2023, the following statement was included

“4.116 Local Government Pension Scheme investment – The government is challenging the Local Government Pension Scheme in England and Wales to move further and faster on consolidating assets – a forthcoming consultation will propose LGPS funds transfer all listed assets into their pools by March 2025, and set direction for the future. This may include moving towards a smaller number of pools in excess of £50 billion to optimise benefits of scale. While pooling has delivered substantial benefits so far, progress needs to accelerate to deliver and the government stands ready to take further action if needed. The Government will also consult on requiring LGPS funds to consider investment opportunities in illiquid assets such as venture and growth capital, thereby seeking to unlock some of the £364 billion of LGPS assets into long-term productive assets.”

33. A report will be brought to the Committee when the consultation is published.

Legal Implications

34. There are no direct legal implications arising from this report.

35. The Pension Fund Committee has the following powers and duties:

- i. to exercise on behalf of the Council, all the powers and duties of the Council in relation to its functions as Administering Authority of the LB Harrow Pension Fund (the fund), save for those matters delegated to other Committees of the Council or to an Officer;
- ii. the determination of applications under the Local Government Superannuation Regulations and the Teachers’ Superannuation Regulations;
- iii. to administer all matters concerning the Council’s pension investments in accordance with the law and Council policy;
- iv. to establish a strategy for the disposition of the pension investment portfolio; and
- v. to appoint and determine the investment managers’ delegation of powers of management of the fund;
- vi. to determine cases that satisfy the Early Retirement provision under Regulation 26 of the Local Government Pension Scheme Regulations

1997 (as amended), and to exercise discretion under Regulations 8 of the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 (as amended, subject to the conditions now agreed in respect of all staff, excluding Chief Officers;

- vii. to apply the arrangements set out in (vi) above to Chief Officers where the application has been recommended by the Chief Executive, either on the grounds of redundancy, or in the interests of the efficiency of the service, and where the application was instigated by the Chief Executive in consultation with the leaders of the political groups.

Financial Implications

- 36. Whilst the performance and effective controls of the fund managers is of paramount importance in the performance of the Pension Fund, there are no specific financial implications arising from this report.

Risk Management Implications

- 37. Risks included on corporate or directorate risk register? **No**
Separate risk register in place? **Yes**
- 38. The Pension Fund's Risk Register is reviewed regularly by both this Committee and by the Pension Board. The latest review was carried out at the Committee's meeting on 23rd November 2022.
- 39. There are no specific risk management implications arising from this report. The level of risk to which its investments are exposed is a key component in developing the Fund's investment strategy.

Equalities implications / Public Sector Equality Duty

- 40. Was an Equality Impact Assessment carried out? **No**
There are no direct equalities implications arising from this report.

Council Priorities

- 41. The performance of the Pension Fund directly affects the level of employer contribution which then, in turn, affects the resources available for the Council's priorities.

Section 3 - Statutory Officer Clearance

Statutory Officer: Dawn Calvert
Signed by the Chief Financial Officer
Date: 14/03/2023

Statutory Officer: Sharon Clarke
Signed on behalf of the Monitoring Officer
Date: 08/03/2023

Chief Officer: Dawn Calvert
Signed on behalf of the Chief Executive
Date: 14/03/2023

Mandatory Checks

Ward Councillors notified: Not Applicable

Section 4 - Contact Details and Background Papers

Contact: Jeremy Randall – Interim Pensions Manager
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Telephone 020 8736 6552

Background Papers: None