

Pension Board

Minutes

2 December 2020

Present:

Chair: Mr R Harbord

Board Members:	James Lee	Harrow Council, Employer Representative
	P O'Dwyer	Scheme Members' Representative - Active Members
	Gerald Balabanoff (VC)	Scheme Members' Representative - Pensioners

In attendance: (Officers) Jeremy Randall For Minutes 76 - 90

76. Declarations of Interest

RESOLVED: To note that the declarations of interests, which had been published on the Council website, be taken as read.

77. Minutes

RESOLVED: That the minutes of the meeting held on 17 September 2020 be taken as read and signed as a correct record.

78. Public Questions

RESOLVED: To note that no public questions had been received.

79. Petitions

RESOLVED: To note that no petitions had been received.

80. Deputations

RESOLVED: To note that no deputations had been received.

Recommended Items

81. Pension Board Draft Annual Report 2019-20

Members received a report setting out the draft Pension Board Annual Report for 2019/20 (at Appendix 1) which outlined actions taken by the Board up until 31 March 2020 and invited comments or changes. The Board was reminded that the Annual Report was required as part of its Terms of Reference and would be presented at the next appropriate full Council meeting.

The Board welcomed the report and did not raise any further comments or changes to its content.

RESOLVED: That the draft Pension Board Annual Report for 2019/20 be noted.

Resolved to RECOMMEND: (to Council)

That the final Pension Board Annual Report for 2019/20 be referred to the next full Council meeting scheduled to take place on 25 February 2021, subject to any additional amendments to the report.

Resolved Items

82. Membership of Pension Board

The Chair welcomed to the meeting Patrick O'Dwyer, Divisional Director for Education at Harrow Council who joined the Pension Board as Scheme Members' Representative (Active Member), following a formal appointment at Harrow's full Council on 26 November 2020.

A vacancy remained on the Board for the position of Employer Representative (Scheduled and Admitted Bodies).

RESOLVED: To note the change to the Pension Board membership.

83. Review of Pension Fund Committee Items - 25 November 2020

The Board received a report and a further update set out in the published supplemental agenda, which summarised the matters considered by the Pension Fund Committee at its virtual meeting on 25 November 2020. A number of those items were also included in the agenda for the Board's meeting.

The Chair and Vice-Chair advised the Board of their attendance at the meeting as observers.

Members' attention was drawn to the confidential investment strategy report which the Pension Fund received, approving a number of changes to the Fund's equity portfolio including the replacement of the Oldfield equity fund with the London CIV sustainable equity manager RBC.

Board Members were also invited to attend a training session by Record Currency Management on currency hedging around the Pension Fund's equity portfolio which was expected to be held before the next Pension Fund Committee meeting on 24 March 2021.

A number of questions were raised by Members and responded to as follow:

- Oldfield was only one of the two equity manager funds, which at present had been identified as underperforming. Although the performance of the second fund, Longview, was not without its challenges, resulting in it being placed on the London CIV's enhanced monitoring list, it was nevertheless deemed to be an appropriate manager and unlike Oldfield, its performance issues were seen as only temporary;
- noting comments on the importance of having a robust governance system capable of taking swift action should any issues with the funds arise, the Board was informed that appropriate processes were in place and were not significantly dissimilar to those adopted by other LGPS funds. The fund was a long-term investor with long-term liabilities and as such was prone to experiencing some short-term market fluctuations. Having funds available in the London CIV also meant that the process for appointing and transferring investments to a new manager could be carried out more quickly than previously when the Fund had to carry out its own "search and selection" process for investment managers.

Referencing information in the report on the current level of the Fund (at 89.3%), the Board noted that no real comparative data existed which would enable the funding level to be benchmarked against other London local authorities between triennial valuations. Officers undertook to investigate the matter further and circulate any available information to the Board after the meeting.

RESOLVED: That the report and supplemental update be noted.

84. Pensions Administration Performance Monitoring to 30 September 2020

The Board received a report setting out the pension administration team performance for the quarter ending 30 September 2020. Despite a number of changes relating to the scheme membership set out in the report, the overall performance remained good, with no reported complaints, disputes or breaches of the law.

Referencing data on the Pension Fund's membership in the current year to 30 September 2020, the Interim Pensions Consultant explained that the proportion of the deferred and active members who had retired had been

offset by a small increase in active members. However, the proportion of membership which were actually active continued to decline which added concern over the long-term sustainability of the fund.

Although Harrow's Pension Fund performance was measured against national target, the latter were more relaxed than Harrow's. In addition, in some categories there were only a small number of cases. Officers undertook to circulate correct data with amendments and explanation on the figures following the meeting.

The Board noted the outstanding performance of the administration team and wished to congratulate the team for its recent award.

RESOLVED: That the report be noted.

85. Update on Changes to Local Government Pension Scheme (LGPS) Regulations and Related matters

The Pension Board received a report informing Members of several recent and proposed regulatory changes which were expected to have a significant impact on the Local Government Pensions Scheme (LGPS) as well as on the workload of Harrow Council's Pensions Administration Team.

The Interim Pensions Consultant reported that the Government was in the process of amending the Pension Scheme Regulations (LGPS), with a number of key changes planned. In particular, it was noted that the Restriction of Public Sector Exit Payments Regulations 2020 which came into force on 4 November 2020, limiting "exit payments" to £95,000 were in conflict with the current LGPS Regulations, which stated that if an active member aged 55+ was made redundant, he / she had immediate unreduced access to their pension. This was problematic because unlike most other public sector funds, the LGPS was funded, and therefore any early payment of pension gave rise to "strain costs" to be met by the employer to offset the cost to the pension fund of pensions being paid early.

The Board heard that until the changes to the LGPS Regulations were approved, any member aged 55 or over who was made redundant and breached the £95k exit payment cap would be offered an actuarially reduced or deferred pension. The updated Regulations were expected to have a significant impact on lower earning staff and could result in a number of legal challenges.

A consultation on the Regulations was currently under way, with the final amendments not expected to be approved until early 2021.

Members raised several questions which were responded to as follows:

- changes to LGPS Regulations, coupled with the impact of the McCloud/Sargent court judgements, would have a significant impact on the pensions team workload and would affect workforce management. The team would be expected to review the cases of hundreds of pensioners who had already retired under the original transition

arrangements as well as recalculate the entitlements of any existing active and deferred members. Additional capacity would need to be secured by moving existing staff to focus on the new Regulations and backfilling any vacancies. The work was expected to be complete by 2023, subject to approval of the Regulations and software changes;

- employer flexibilities, which were introduced as part of the LGPS Regulations on 23 September 2020 to provide assistance to some of the admission bodies struggling as a result of the Covid-19, were not expected to have a major impact on Harrow compared to other Local Authorities. The Regulations enabled the Pension Fund to manage exist arrangements and the Council was already in the process of putting these into practice through the handling of the recent SopraSteria IT Services cessation, which came to an end in October 2020;
- work was underway between the Pensions Fund and the Council's Legal teams to ensure senior management was aware of the implications of the Regulations and enable them to act appropriately should any redundancies occur.

The Board thanked officers for the comprehensive report and requested that, given the profound implications of the changes to the LGPS regulations on the Fund and the wider local government context, the matter be monitored closely and updates provided on regular basis at future Board meetings.

RESOLVED: That the report be noted.

86. Pension Fund Annual Report and Accounts 2019-20 - Outcome of Audit

The Board received a report which set out the auditor's findings following the audit of the Pension Fund Annual Accounts for 2019/20. Members were informed that only a small number of amendments to the pension fund accounts had been required, which demonstrated the high standard to which the accounts were prepared.

The Interim Pensions Consultant also reported that the auditors had not been able to sign the statement of accounts by the statutory deadline of 30 November 2020 as normally required and as a result the audited Annual report had not yet been published. However, the delay was not expected to have any repercussions for the Council and a large number of other local authorities had found themselves in similar position.

RESOLVED: That the report be noted.

87. Pension Fund Risk Register Review

The Pension Board received a report setting out the updated Pension Fund Risk Register.

The Interim Pensions Consultant reported that whilst the Harrow Council's standard methodology to scoring risks had been preserved, the format of the

Register itself had been modified, allowing higher risks to be separated from lower ones into a separate list and by doing so allow closer monitoring and appropriate prioritisation. In addition, the review had identified a significant number of operational risks which had been removed from the Register as they were adequately managed through “business as usual” processes.

Responding to a comment on increasing the notice period for key pensions staff, Members were informed that although not a matter for the Pension Board to decide on, it was not advisable to adopt varying contractual arrangements which did not also apply to other similar roles in the organisation. Instead, the focus would need to be on ensuring suitable processes and measures were in place which could mitigate any potential risks resulting from changes to the staff structure.

Members welcomed the report and agreed with the changes to the Risk Register.

RESOLVED: That the report be noted.

88. Pension Fund Performance Management Arrangements with PIRC

The Pension Board received a report, setting out the arrangements for the performance management of the Pension Fund provided by the Pensions and Investment Research Consultants Ltd (PIRC).

By way of introducing the report, the Interim Pensions Consultant highlighted two key aspects of the performance management. Firstly, he explained that PIRC had been asked to monitor the fund’s performance because unlike many other LGPS funds, Harrow did not have a global custodian due to the absence of segregated investment mandates. Secondly, the PIRC oversaw a comparative performance data of 63 LGPS Funds (called the “local authorities universe”), which came with its own challenges, including variance in the funding levels, objectives and targets, meaning it was a challenge to produce an objective league table. Harrow’s Fund investment performance had not been satisfactory, which was partially due to poor performance from some of its equity managers.

Spotlighting on ranking data set out in the appendix to the report, Board Members heard that when compared to other boroughs, Harrow’s Fund underperformed, with a 0.4% return of investment against a London average of 1.9%. However, the Board also noted that funds were not directly comparable and varied significantly, with some having a higher proportion of funds in equities or similar returns of investments which affected ranking and performance.

RESOLVED: That the report be noted.

89. Work programme for future meetings

The Board received a report which reviewed the Pension Board’s work to date and invited comments from members on the work programme for the remainder of 2020/21 municipal year.

Having noted the importance of training in ensuring compliance with regulations requirements, it was requested that a report on Pension Board members training be added to the agenda for the next meeting scheduled to take place on 4 March 2021.

RESOLVED: That the work programme be noted.

(Note: The meeting, having commenced at 6.30 pm, closed at 7.52 pm).

(Signed) Richard Harbord
Chair