

Pension Board

Minutes

16 December 2021

Present:

Chair: Mr R Harbord

**Board
Members:**

Gerald Balabanoff (VC)	Scheme Members' Representative - Pensioners
Patrick O'Dwyer	Scheme Members' Representative - Active Members
Dr Simon Radford	Employer Representative – Scheduled and Admitted Bodies

**Apologies
received:** Councillor James Lee

1. Declarations of Interest

RESOLVED: To note that the declarations of interests had been published on the website and would be taken as read.

2. Minutes

RESOLVED: That the minutes of the meeting held on 6th October 2021, be taken as read and signed as a correct record.

3. Public Questions

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

4. Petitions

RESOLVED: To note that no petitions had been received.

5. Deputations

RESOLVED: To note that no deputations had been received.

Resolved Items

6. Pensions Administration Update to 30 September 2021

The Board received a report on Pensions Administration Update for the quarter ending on 30 September 2021, which provided a summary of the Pension Administration Team's performance and updated Members on a number of other items.

During the discussion that ensued, the following points were highlighted:

- 1) the pensions administration performance statistics were measured against the national benchmarks for the Quarter to 30 September 2021 and were set out in Appendix 1 to the officer report. Service performance remained good and case numbers were added to the performance monitoring statistics set out in Appendix 1 for completeness;
- 2) the Fund membership had increased particularly with respect of the active members although a significant number of members had also retired during the last quarter;
- 3) a resolution to a complaint submitted to the Pensions Ombudsman in December 2020 regarding ill health retirement was still being awaited. Since the last Board meeting in October 2021, further two cases had been referred to the Ombudsman, both relating to decisions around ill health retirement. Despite all Ombudsman deadlines being met on time by Harrow's Pension Team, a decision on all three cases was still being awaited with a delay of several months likely due to a backlog of complaints that the Ombudsman's service was dealing with. Whilst

outside of the Council's control, this was a significant and unsatisfactory delay which was likely have material consequences for the complainants;

- 4) following training held at the November Pension Fund Committee, the Pensions Team had commenced preparations for the triennial valuation, with a timetable of the process included in the officer report;
- 5) no further updates on the McCloud judgement since the last Board meeting had been received. The Bill to amend the Public Service Pensions Act was currently progressing through Parliament with draft LGPS regulations expected to be issued for consultation by the end of 2021. Guidance on investment pooling was also being awaited; and
- 6) a draft Government Actuary's Department (GAD) "section 13" report setting out 2019 valuation results for all LGPS funds had been published on 16th December 2021 and would be reported to the March 2022 Board meeting.

The Board welcomed the updates and commended Harrow's Administration Team for their performance and high standards as demonstrated by the report.

RESOLVED: That the Report be noted.

7. Audit of Pension Fund Annual Report and Accounts for 2020-21

The Board received a report on the Audit of Pension Fund Annual Report and Accounts for 2020-21 for the year ended 31 March 2021.

The Interim Pensions Manager stated that the audit had been completed and the accounts for 2020/21 were due to be signed off on 17th December 2021. He noted that whilst the statutory deadline for publishing the accounts of 1st December 2021 had not been met due to delays with the Council's Auditors – Mazars, this was not due to any action or inaction by the Council. He added that the accounts were in a good shape with no issues to report and a certificate of consistency would be issued in due course.

The Board commented on the fact that Harrow was one of the first local authorities to have its accounts signed off which was a good overall achievement.

Members welcomed the report and did not raise any further comments.

RESOLVED: That the outcome of the audit for the year ended 31 March 2021 as set out the officer report, be noted.

8. Review of Fund Policies

As agreed at the October 2021 meeting and in preparation for the implementation of the Good Governance Review in 2022, the Board received a report on two of

the Pension Fund policies – namely the Conflicts of Interest Policy and the Breaches Policy - and sought comments and suggestions from Members.

During the discussion that ensued the following points were raised with respect to each of the two policies:

Conflicts of Interest

- 1) Responding to a question on the format of the Conflicts of Interest Policy and how it reconciled with the Council's Declarations of Interest Policy (DOI), the Board was informed that the former was an overarching policy which set out the definitions of a conflict of interest, the situations where conflicts may arise and the principles which would be applied in managing those appropriately. Given that the Council had a dual role – as an administrative authority for the LBH Pension Fund and as a local authority for the area - it was important to ensure that the elected members who sat on the Pension Fund Committee (PFC) represented the interests of the PF rather than the Council as the local authority. The DOI on the other hand related more to members' personal interests and were declared as part of the governance process.
- 2) The Board commented that with some Pension Funds going heavily into surplus it expected added pressure from employers to reduce employer contributions without considering the overall position of the Fund, which in turn could lead to a potential conflict of interest.
- 3) A Member commented that the Council had to be mindful of, manage carefully and where applicable avoid the appointment of members who had a dual role or were involved in bodies responsible for the management of council's finances;
- 4) The Board noted the involvement of the Chair of the PFC in the London Collective Investment Vehicle (CIV) and asked whether this should be taken into consideration as it could lead to a potential conflict of interest between Harrow and the CIV. In fact, as the LBH Pension Fund is one of the shareholders of the London CIV, the Chair's role was to be the shareholder's (ie the LBH Pension Fund's) representative at the CIV's General Meetings of its shareholders.
- 5) Conflict of interest was also dependent on the level of understanding of Pension Board and PFC Members' roles and commitment to ensure that the Fund's liabilities were covered by its assets. This could be problematic especially in the context of climate change and zero carbon targets where a conflict between breaching net carbon and investment return may occur.
- 6) The Board suggested that a statement prompting the individual if in doubt to seek advice on potential conflicts of interest be added to the main policy;
- 7) Referencing page 69 of the report, a Member commented on the "unenviable" position in which the Director of Finance was put by being directly named thereby placing significant responsibility for which they had no statutory authority. Instead it was suggested that the wording be

amended replacing “Director of Finance” with “Section 151 Officer, in conjunction with the Head of Paid Service and Monitoring Officer” instead.

Breaches Policy:

The interim Pensions Manager introduced the policy stating that the document presented to the Pension Board as part of the agenda for this meeting was the same as what was last approved at the end of 2016 and was currently in operation. Breaches were reported on a quarterly basis with none identified in recent years.

In noting that the Board itself had a role in reporting breaches, even if they were its own and referred them to the Monitoring Officer, Members noted the Breaches Policy and did not raise any further comments.

RESOLVED: That the Report be noted and that the Conflicts of Interest Policy and Breaches Policy be recommended to the Pension Fund Committee.

9. Review of Pension Fund Risk Register

The Board received a report on the updated Pension Fund Risk Register for consideration and review.

The Interim Pensions Manager introduced the report stating that the register was last reviewed by the Board at its meeting on 8th July 2021, with no significant changes to the risks since then. In reviewing the existing risk register, officers had followed the Council’s standard practice and approach to the scoring of each risk by assessing the likelihood and impact on the Pension Fund and categorising them accordingly. A number of high (“red”) risks were set out in Appendix 2 to the report, majority of which related to movements in the financial markets, which were outside of the Pension Fund’s control or to the workload arising from the McCloud judgement, which was proactively being mitigated by collecting additional historic data from employers. No new risks had been highlighted in Appendix 2.

In response to a question on Covid-19 related risks, it was explained that this was considered a “business as usual” risk, covered under operational mitigation but if required, could be added to the risk register and wording amended accordingly.

RESOLVED: That the updated risk register as set out in the officer report and accompanying appendices, be noted.

10. Review of Pension Fund Committee Items (24 November 2021)

Having noted the confidential Appendix 2 to the officer report, the Board received a report which summarised the matters considered by the Pension Fund Committee Items at its last meeting on 24 November 2021 and invited the Board’s comments.

During the discussion that ensued the following key points were highlighted:

- 1) A technical amendment to the definition of “Regulatory Capital” in the Shareholder Agreement and Articles of Associate had been approved

by the London Collective Investment Vehicle (CIV) following some additions to its range of fund offerings;

- 2) Arrangements to appoint two independent advisors to the Pension Fund were under way as current contracts were due to expire in March 2022. Recommendations for appointees were expected to be made at the next Pension Fund Committee (PFC) meeting in March 2022;
- 3) As at 30 September 2021, the Pension Fund's investments were valued at just over £1bn with estimated liabilities at £985m and investment funding level of 104% value just over £1bn – this was an improvement since the last valuation mainly due to higher than expected returns on investments during the most recent quarter;
- 4) Environmental, Social and Governance (ESG) reporting and dashboard had been agreed by the PFC. Options offered by Blackrock for exercising voting rights in respect of the Fund's passive equity investments were also considered and having considered a number of possible options, it was agreed that the approach of continuing to use Blackrock's Investment Stewardship division to vote on the Fund's behalf remained the most appropriate. With regards to the ESG dashboard, set out in the exempt Appendix 2, it was expected that subject to confirmation from Aon, once completed with Harrow's data it would become a publicly accessible document.
- 5) Referencing Appendix 1 to the report, which set out the Fund's valuation and performance for the period March 2021 – March 2022, in particular with regards to the valuation of assets without a specific market class, the Board was informed that this referred to all liquid assets. Property was of particular concern due to the impact of the Covid-19 pandemic and the uncertainty around valuation of commercial property. Other assets where the market was less obvious private equity investment, infrastructure fund and renewables infrastructure (since July 2021).
- 6) With regard to funding and liabilities, the Board was informed that under current statute it was not possible to outsource risk to third parties even if its funding level exceeded acceptable thresholds. Funds are expected to manage this through modification of investment strategies (eg lowering risk as funding levels increase and vice versa). Other factors which had to be taken into account included the Fund's cash flow position (in Harrow's case most returns were reinvested) as well as the assumptions made by the Actuary particularly the discount rate applied to future liabilities. Any large surpluses highlighted by triennial valuations opened the possibility for review of the employer contribution rates and would normally be managed through adjustment of secondary employer contribution rates to avoid potential problems.

RESOLVED: That the report be noted and that a further report on the Government Actuary's Section 13 report on the 2019 Valuation be included on the agenda for the March 2022 Board meeting.

11. Pension Board Work Programme For Future Meetings

Members received a report on the Pension Board Work Programme, which listed forthcoming items for consideration as well as dates of upcoming Board meetings for the remainder of 2021/22 and proposed dates for 2022/23 Municipal Year.

The Board welcomed the programme, suggesting that specific training needs and opportunities be identified and incorporated in the work programme as part of the development of the Board Members.

RESOLVED: That the date of the remaining meeting for 2021/22 and the proposed dates and work programme for 2022/23 as set out in the officer report, be noted.

12. Review of Pension Fund Committee Items (24 November 2021)

See Minute 10.

(Note: The meeting, having commenced at 6.30 pm, closed at 7.33 pm).

(Signed) Richard Harbord
Chair