

Pension Board

Minutes

2 March 2023

Present:

Chair: Mr R Harbord

Board Members:	Pritesh Patel	Employer representative – London Borough of Harrow
	Gerald Balabanoff (VC)	Scheme Members' Representative - Pensioners
	Patrick O'Dwyer	Scheme Members' Representative - Active Members
	Dr Simon Radford	Employer Representative – Scheduled and Admitted Bodies

In attendance: (Officers)	Jeremy Randall	Interim Pensions Manager Hymans Robertson
	Steven Law	

34. Declarations of Interest

RESOLVED: To note that no interests were declared.

35. Minutes

RESOLVED: That the minutes of the meeting held on 1 December 2022 be taken as read and signed as a correct record.

36. Public Questions

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

37. Petitions

RESOLVED: To note that no petitions had been received.

38. Deputations

RESOLVED: To note that no deputations had been received.

Resolved Items

39. Pensions Administration Update to 31 December 2022

The Board received a report, outlining the Pension Administration Team's performance for the quarter ending 31 December 2022 and updating Members on a number of other items.

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

- 1) After a slight drop in the pension administration team's performance in the previous quarter due to challenges with the new payroll arrangements and work around the triennial valuation, the performance was starting to improve, and backlogs had been reduced to manageable levels.
- 2) Work was under way on the automation of some processes such as the Members Self-Service, which was currently being tested as well as *i-connect* arrangements, which would seek to improve the quality and timeliness of data submitted by non-Harrow employers.
- 3) Active membership had seen a slight growth – it is likely that this was due to the auto-enrolment exercise carried out in the 2022. The total number of members had also increased to 19,155.
- 4) Preparations were underway for the implementation of 10.1% pensions increase from 12 April 2023.
- 5) A technical consultation on the alignment of indexation of career average scheme benefits with the tax system, the aim of which was to avoid higher earners in public sector pension scheme receiving unintended tax bills was likely to go through as published. A further technical consultation on the cost management process and implementation of McCloud was also under way although it did not include the Local Government Pension Scheme.
- 6) There had been no progress on the major consultations including investment pooling which was likely due to capacity issues at Department for Levelling Up, Housing and Communities.

The Board welcomed the report and raised a number of comments and questions which were addressed as follows:

- 7) Referencing paragraph 10 of the officer report on one of the ill-health retirement cases from October 2021, the Interim Pensions Manager explained that the Ombudsman had decided that some aspects of the process by which the Council reached a decision did not fully comply with the scheme regulations. As a result, the Council had to pay a small compensation to the individual member and reconsider the application. The case was currently with the independent registered medical practitioner and a report was being awaited in due course. No further updates had been received on the other two ill-health retirement cases. The Board was informed that as part of the Council's complaints procedure, the compensation was paid from the Council's main budget rather than the Pension Scheme funds. Members welcomed the update and requested that an outline of all Ombudsman decisions along with any lessons learned from the resolved case be included in the next performance report.
- 8) Previous payslip issues which had been caused by the change of payroll software were considered resolved and no repercussions had resulted from the Council's self-reporting the incident to the Information Commissioner.
- 9) Although no specific figures on the number of re-enrolment cases could be provided, the Board was informed of a recent Freedom of Information request on the number of people who had opted for the 50/50 scheme because of the cost-of-living crisis, which revealed there were none.
- 10) Issues arising from the pensions payroll had arisen following the recent upgrade of the Council's system from SAP to Microsoft D365 which had resulted in a number of practical problems that were taking longer than expected to resolve.
- 11) Referencing the performance monitoring statistics in Appendix 1 to the officer report in relation to the issue of statutory notification on receipt of transfer funds, the Board was informed that whilst these were considered a lower priority as they did not have an immediate impact on a member's pension situation, work would be undertaken to ensure the performance on these moves closer to the 100% target.

RESOLVED: That the report be noted.

40. Review of Pension Fund Committee Items

The Board received a report which summarised the matters due to be considered by the Pension Fund Committee (PFC) at its forthcoming meeting on 29 March 2023 and was invited to comment.

During the discussion, the following key points were highlighted:

- 1) A training on strategic asset allocation led by the Pension Fund's Investment Consultants for members would be held on 29 March 2023

before the main PFC meeting and Pension Board Members were invited to attend.

- 2) Investment valuation increased by 3% in the last quarter, during which the Fund also carried out some rebalancing between equities and bonds to reduce the overweight positions in its equity portfolio, investing the proceeds in fixed income corporate bonds and passive index linked Gilts.
- 3) The estimated funding level had improved since the 2022 valuation and the roll forward funding level for the last quarter had increased to 112% - this related to “past service” benefits with the Fund still having to consider its long-term position and meet significant liabilities in respect of future services. The Fund will also have to meet significant liabilities in respect of future service.
- 4) The audit findings report on the Pension Fund Annual Report and Accounts were still outstanding due to a delay with the audit of the Council’s main accounts. The outcome of the audit was expected to be reported to the Governance, Audit, Risk Management and Standards Committee at its April meeting.

The Board welcomed the report and raised a number of questions/comments which were responded to as follows:

- 5) The current total value of the pension fund investment was in the region of £950 million although this may change in the next quarter.
- 6) In response to a question on the Fund’s actuarial services procurement and the impact of a potential change of Actuary on future triennial valuations, the Board was informed that the tender was required by the Council’s Standing Orders and Procurement Rules. Competition however was limited with only a handful of firms on the LGPS actuarial framework. Regardless of outcome of the procurement tender, the valuation methodology was likely to remain similar as pension legislation had narrowed the ranges of assumptions actuaries used.
- 7) In response to a question on why, in the the net current assets section of the Appendix to the report, the cash held by JP Morgan had reduced to £48,000, the Board was informed that the cash held by JP Morgan was in their role as custodian for the Fund’s the currency hedging mandate managed by Record Currency Management. This fluctuated according to whether the Fund had to make payments or receive income as a result of its hedging activity, and at times, if the balance was too high, some of it was being withdrawn to meet the Fund’s other cash flow needs.

RESOLVED: That the report be noted.

41. 2022 Triennial Valuation

The Board received a report on the latest position of the 2022 Triennial Valuation, along with the Funding Strategy Statement and associated policies. The Valuation, which was a requirement for every pension fund (as per the Local Government Pension Scheme Regulations), was nearing completion and would be submitted for approval to the Pension Fund Committee at its meeting on 29 March 2023.

The Board also welcomed Steven Law (Harrow's Pension Fund Actuary, Hymans Robertson LLP) to the meeting, who delivered a presentation on the Triennial Valuation, explaining the process, data and assumptions, results and remaining actions, highlighting the following points:

- 1) Since the last valuation, the fund had outperformed expected investment returns resulting in net improvement of £66m, however most of this had been absorbed into paying for higher inflation costs. The result of the valuation overall was an improved funding level of 96% as of 31 March 2022, compared to 94% in 2019.
- 2) From 1 April 2023 the Fund's cash flow position was expected to "worsen" because pensions payable were expected to increase by 10.1%, while employer contributions were reducing. As a result, a long-term cash flow forecast had been produced and would be used to inform the upcoming investment strategy review.
- 3) Data from the triennial valuation demonstrated that 63% of employers had seen a reduction in their contributions rates and none had had an increase. It also demonstrated that employer contribution rates were sustainable without affecting the Fund's long-term objectives.
- 4) Final Triennial Valuation sign-off was due on 31 March 2023. Major risks, in particular expected changes to the cashflow, would need to be monitored to avoid a forced sale of assets.

The Board welcomed the presentation and did not raise any questions of the Actuary.

RESOLVED: That the report and presentation be noted.

42. Draft Responsible Investment Policy

The Board received a report on the draft Responsible Investment Policy and consequential changes to the Investment Strategy Statement (ISS), approval of which would be sought from the Pension Fund Committee at its meeting on 29 March 2023. Members were reminded that the LGPS Regulations 2016 required pension funds to have an ISS which clearly set out how they would manage and invest their assets to enable them to meet their respective Funding Strategies.

The following key points were raised in the ensuing discussion:

- 1) Pension Regulations required funds to have a policy on how Environmental, Social and Governance considerations were taken into account in the selection, retention and realisation of investments and these were set out within the ISS (Appendix 2 to the officer report).
- 2) In terms of using voting and engagement to influence investment decisions, the Board was reminded that the Fund did not directly own shares in individual companies but instead invested in pooled funds each with its own asset owner. The asset owner for Harrow's Pension Fund was BlackRock and voting was done in line with their relevant policy. Investment managers also used the weight of the capital they were managing on behalf of pension funds as a leverage for putting pressure on companies to act in certain way. The London CIV, which managed most of the fund's active equities, also engaged Hermes to monitor voting and engagement activity of each of the CIV managers and sample reports can be shared with Board members for information.
- 3) Acknowledging the value and power of pooled funds working together to achieve "strength in numbers" when making investment decisions, the Board was advised that the London CIV already worked with Local Pensions Partnership (LPP) on a number of areas but its relationship with other pools was still relatively limited.

RESOLVED: That the report be noted.

43. London CIV and Investment Pooling Update

Having agreed to note the confidential appendices to the officer report, the Board received a report on the current investment pooling position and the London Borough of Harrow Pension Fund's pooling arrangements with the London Collective Investment Vehicle (LCIV). The LCIV was set up by the London Boroughs in their role as administering authorities for their respective pension funds and enabled the funds to meet government requirements, negotiate lower investment fees and gain access to certain asset classes, which a fund of Harrow's size would not be able to access cost effectively on its own.

Members heard that investment pooling was making reasonable progress - as of 31 December 2022, the London Borough of Harrow had 48.8% of its investments in LCIV funds and further 29% in passive funds. The total of pooled investments was likely to increase even further once the LCIV Renewables Infrastructure Fund and the LCIV Infrastructure Fund were fully called.

The Board was also informed of the ongoing LCIV staffing team evolution with the most significant recent change being the appointment of Dean Bowden as its new Chief Executive. An introductory meeting between Mr Bowden, Harrow's Pension Fund Chair and Lead Officers had already been convened to understand the Fund's needs and requirements.

In response to a question on how time-consuming membership of the London CIV was, the Board was informed that different layers of meetings existed,

ranging from executive to officer level and fund-development meetings, which varied in duration and frequency. In addition, the CIV ran a monthly independent advisors' group, which served as a useful platform for investment dialogue and was regularly attended by Harrow's independent pension fund advisor.

RESOLVED: That the report be noted.

44. Pension Board Work Programme for 2023/24

Members received a report on the Pension Board Work Programme, which reviewed the Board's work programme to date and invited the Board's comment on the suggested draft work programme for the 2023/24 Municipal Year. Members were asked to note that at the time of writing the report the meeting dates for 2023/24 had not yet been approved and published but would be circulated as soon as possible.

In response to a question about bringing the start time of future Board meetings forward to 2.30 pm, Members agreed that it would not be practicable due to conflicting work commitments, officers' availability, and other practical arrangements. It was agreed that Board meetings' start time remained as 6.30 pm.

RESOLVED: That the work programme be noted.

(Note: The meeting, having commenced at 6.30 pm, closed at 8.08 pm).

(Signed) Richard Harbord
Chair