

Pensions Board

Agenda

Wednesday 9 June 2021
6.30 pm

This meeting is being held as an informal remote meeting

Watch live on YouTube: <https://youtu.be/gIPnRdtwgxk>

MEMBERSHIP

| |
|---|
| Employer Representatives |
| Councillor Rory Vaughan (Chair) Councillor Bora Kwon |
| Scheme Member Representatives |
| Neil Newton William O'Connell Khadija Sekhon |

CONTACT OFFICER:

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Pensions Board Agenda

9 June 2021

| <u>Item</u> | | <u>Pages</u> |
|---|--|--------------|
| 1. APOLOGIES FOR ABSENCE | | |
| 2. DECLARATIONS OF INTEREST | | |
| | <p>If a Councillor has a disclosable pecuniary interest in a particular item, whether or not it is entered in the Authority's register of interests, or any other significant interest which they consider should be declared in the public interest, they should declare the existence and, unless it is a sensitive interest as defined in the Member Code of Conduct, the nature of the interest at the commencement of the consideration of that item or as soon as it becomes apparent.</p> <p>At meetings where members of the public are allowed to be in attendance and speak, any Councillor with a disclosable pecuniary interest or other significant interest may also make representations, give evidence or answer questions about the matter. The Councillor must then withdraw immediately from the meeting before the matter is discussed and any vote taken.</p> <p>Where Members of the public are not allowed to be in attendance and speak, then the Councillor with a disclosable pecuniary interest should withdraw from the meeting whilst the matter is under consideration. Councillors who have declared other significant interests should also withdraw from the meeting if they consider their continued participation in the matter would not be reasonable in the circumstances and may give rise to a perception of a conflict of interest.</p> <p>Councillors are not obliged to withdraw from the meeting where a dispensation to that effect has been obtained from the Standards Committee.</p> | |
| 3. MINUTES OF THE PREVIOUS MEETING | | 4 - 6 |
| | <p>To note the minutes of the meeting held on 10th February 2021. As this is an informal meeting minutes will be formally agreed at the next meeting.</p> | |
| 4. DRAFT MINUTES OF THE PREVIOUS PENSION FUND COMMITTEES | | 7 - 17 |
| | <p>Draft minutes of the Pension Fund Sub-Committee meeting held on 3rd February and 3rd March 2021 - for information.</p> | |
| 5. UPDATE ON THE LGPS PENSIONS ADMINISTRATION SERVICE | | 18 - 27 |
| | <p>This report follows up on update reports presented previously to the</p> | |

Pensions Board on the actions agreed by the Pension Fund Subcommittee on 3 February 2021 to appoint Local Pension Partnerships Administration (LPPA) to provide the Pension Administration service from 1 February 2022.

- | | | |
|-----------|--|---------|
| 6. | PENSION ADMINISTRATION PERFORMANCE UPDATE | 28 - 32 |
| | <p>This paper sets out a summary of the performance of Surrey County Council (SCC) in providing a pension administration service to the Fund. The Key Performance Indicator (KPI) for the period January 2021 – April 2021 inclusive is shown in the Appendix 1.</p> | |
| 7. | INDEPENDENT REVIEW OF THE GOVERNANCE ARRANGEMENTS FOR THE PENSION FUND | 33 - 48 |
| | <p>This paper provides the Local Pension Board with the report of an independent consultant commissioned by officers reference an independent review of the governance arrangements for the pension fund.</p> | |
| 8. | PENSION FUND QUARTERLY UPDATE PACK | 49 - 63 |
| | <p>This paper provides the Local Pension Board with summary of the Pension Fund's overall performance for the quarter ended 31 March 2021.</p> | |
| 9. | PENSION FUND BUSINESS PLAN | 64 - 79 |
| | <p>The purpose of this report is to present the 2021/22 business plan, which presents strategic medium-term objectives and a budget forecast for 2021/22.</p> | |

Agenda Item 3

London Borough of Hammersmith & Fulham

Pensions Board Minutes



Wednesday 10 February 2021

NOTE: This meeting was held remotely. A recording of the meeting can be found at: <https://youtu.be/69WhYq8Pldo>

PRESENT

Committee members: Councillors Rory Vaughan (Chair) and Bora Kwon
and Rory Vaughan

Co-opted members: William O'Connell

Officers: Rhian Davies (Director of Resources), Dawn Auger (Assistant Director Transformation, Talent and Inclusion), David Hughes (Director of Audit, Fraud, Risk and Insurance), Eleanor Dennis (H&F Pensions Manager), Mathew Dawson (Treasury and Pensions), Patrick Rowe (Corporate Finance), Michael Sloniowski (Principal Consultant)

1. **APPOINTMENT OF CHAIR AND VICE CHAIR**

RESOLVED:

That Councillor Rory Vaughan be appointed as Chair and Councillor Bora Kwon be appointed as Vice Chair of the Pensions Board for the 2020/21 municipal year.

2. **APOLOGIES FOR ABSENCE**

Apologies for absence were received from Neil Newton.

3. **ROLL CALL AND DECLARATIONS OF INTEREST**

The Chair carried out a roll call to confirm attendance. There were no declarations of interest.

4. **MINUTES OF THE PREVIOUS MEETING**

RESOLVED:

That the minutes of the previous meeting held on the 19th November 2020 were agreed.

5. DRAFT MINUTES OF THE PREVIOUS PENSION FUND COMMITTEE

The draft minutes of the previous Pension Fund Sub-Committee were noted.

6. INVESTMENT CONSULTANT REVIEW

Mathew Dawson (Treasury and Pensions), presented the report and gave a summary of the key points. The paper provided the Pensions Board with a performance review for the Pension Fund's investment consultant (Deloitte), in line with the agreed set of aims and objectives.

As shown in Appendix 1, the consultant's performance over the past year had been to an excellent standard and the Pension Fund officers remain pleased with the work that the consultant continued to carry out in advising the Fund on its investment strategy.

It was noted that an update regarding the outcome of the investment consultant review would be provided at the next Pensions Board meeting.

RESOLVED:

That the Pensions Board noted and commented on the report.

7. PENSIONS ADMINISTRATION SERVICE

David Hughes (Director of Audit, Fraud, Risk and Insurance) introduced the report and noted that officers had completed the evaluation of providers for the pensions administration service and presented their recommendation regarding the preferred provider to the Pensions Fund Sub-Committee on the 3rd February 2021. The Pension Fund Sub-Committee approved for the Council to join a public to public arrangement with Local Pensions Partnership Administration (LPPA) for the provision of the pension's administration service from February 2022.

A shared service arrangement with the Royal Borough of Kensington and Chelsea (RBKC) would also come to an end at 31st December 2020 and that a in house retained pensions team would be established to take on the functions previously undertaken by RBKC. It was noted that the report sets out the work done to assess the private and public provider markets. The steps taken to assess and evaluate three public-public providers and make recommendations to the Pensions Fund Sub-Committee for the appointment of a future partner to provide the pensions administration service.

William O'Connell (Co-opted Member) asked if LPPA offered improved engagement with scheme members. In response David Hughes explained that LPPA, offered a high-quality service with regards to data quality and engagement with scheme members.

The Chair asked how the Council would ensure a smooth transition to the new provider over the 12-month notice period. David Hughes outlined the steps taken by

the Council to transition effectively in collaboration with Surrey County Council (SCC) and LPPA. In addition, the Council was satisfied that LPPA had a robust approach to project management, clear planning and previous experience of recent onboarding with a number of other Local Authorities with similar data quality issues.

RESOLVED:

That the Pensions Board noted and commented on the report.

8. ANY OTHER BUSINESS

RESOLVED:

The sub-committee agreed, under Section 100A (4) of the Local Government Act 1972, that the public and press be excluded from the meeting during the consideration of the following items of business, on the grounds that they contain the likely disclosure of exempt information, as defined in paragraph 3 of Schedule 12A of the said Act, and that the public interest in maintaining the exemption currently outweighs the public interest in disclosing the information.

Meeting started: 6:30pm
Meeting ended: 7:40pm

Chair

Contact officer Amrita Gill
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London Borough of Hammersmith & Fulham

Pension Fund Sub-Committee

Minutes

Wednesday 3 February 2021

NOTE: This meeting was held remotely. A recording of the meeting can be found at: <https://youtu.be/xPJ03mkWdoM>

PRESENT

Committee members: Councillors Iain Cassidy (Chair), Matt Thorley, Jonathan Cale Landy and Rowan Ree

Co-opted members: Michael Adam

Officers: Rhian Davies (Director of Resources), Dawn Aunger (Assistant Director People and Talent), David Hughes (Director of Audit, Fraud, Risk and Insurance), Eleanor Dennis (Pensions Manager), Gareth Hopkins (Pensions Consultant), Phil Triggs (Director of Treasury and Pensions), Matthew Hopson (Strategic Investment Manager)

1. APOLOGIES FOR ABSENCE

Apologies for lateness were received from Councillor Jonathan Caleb-Landy

Councillor Jonathan Caleb-Landy joined the meeting at 18:35pm

2. ROLL CALL AND DECLARATIONS OF INTEREST

The Chair carried out a roll call to confirm attendance. There were no declarations of interest

3. MINUTES OF THE PREVIOUS MEETING

RESOLVED

That the minutes of the meeting held on 24th November 2020 were approved.

4. NEW MEMBERSHIP OF THE PENSION FUND SUB-COMMITTEE

RESOLVED

That the new membership for the Pension Fund Sub-Committee was noted.

5. PENSIONS ADMINISTRATION UPDATE

David Hughes (Director of Audit, Fraud, Risk and Insurance) introduced the report and provided a summary of the reasons why an independent review on Surrey County Council (SCC) was commissioned. Having considered the findings of the independent review undertaken by an independent pension's advisor, the Council served a 12 months' notice of termination on SCC for the provision of the pension's administration service. A shared service arrangement with the Royal Borough of Kensington and Chelsea (RBKC) would also come to an end at 31st December 2020 and that a in house retained pensions team would be established to take on the functions previously undertaken by RBKC.

It was noted that the report sets out the work done to assess the private and public provider markets, and having completed that assessment, the steps taken to assess and evaluate three public-public providers to make recommendations to Committee for the appointment of a future partner to provide the pensions administration service.

The Chair asked for further clarification to be provided on the current market position for pensions administration services across other Local Authorities. In response David Hughes, explained that there was a small number of private sector providers who had LGPS clients. It was noted that 9 other Local Authorities had already joined with the Local Pensions Partnership Administration (LPPA) to provide their pensions administration service. In addition, many other Local Authorities had implemented their own in-house service or collaborated with their neighbouring boroughs.

The Chair asked for a summary of the services that were provided by SCC. Eleanor Dennis (Pensions Manager), outlined all the services provided by SCC. These included maintaining pensions records for all membership types, advising on regulatory changes within the LGPS, switching pensions into payments and dealing with applications for retirement and transfers.

Michael Adam (Co-opted Member) felt that poor data quality had been the cause of majority of the issues faced with SCC and asked whether the recommended provider would offer improved engagement with scheme members. David Hughes explained that the recommended provider, offered a high-quality service with regards to data quality improvement and maintenance.

RESOLVED:

That the Sub-Committee:

- Approved for LBHF to join a public to public arrangement with Local Pensions Partnership Administration for the provision of the pension's administration service, by delegating this council function pursuant to Section 101 of the Local Government Act 1972, subject to there being an agreed Delegation Agreement.

- Noted that regular updates on progress moving to the Partnership, including costs, are made to Pension Fund Sub-Committee and Pensions Board.

6. ANY OTHER BUSINESS

The sub-committee agreed, under Section 100A (4) of the Local Government Act 1972, that the public and press be excluded from the meeting during the consideration of the following items of business, on the grounds that they contain the likely disclosure of exempt information, as defined in paragraph 3 of Schedule 12A of the said Act, and that the public interest in maintaining the exemption currently outweighs the public interest in disclosing the information.

Meeting started: 6:30pm
Meeting ended: 7:40pm

Chair

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Pension Fund Sub-Committee

Minutes

Wednesday 3 March 2021

NOTE: This meeting was held remotely. A recording of the meeting can be found at: <https://youtu.be/wLREq3DXW3M>

PRESENT

Committee members: Councillors Iain Cassidy (Chair), Rowan Ree, Jonathan Caleb-Landy, Matt Thorley

Co-opted members: Michael Adam

Officers: Rhian Davies (Director of Resources), Dawn Aunger (Assistant Director People and Talent), David Hughes (Director of Audit, Fraud, Risk and Insurance), Eleanor Dennis (Pensions Manager), Phil Triggs (Director of Treasury and Pensions), Matthew Hopson (Strategic Investment Manager), Patrick Rowe (Corporate Finance) and David Abbott (Head of Governance)

External:

John Raisin (LGPS practitioner)

Kevin Humpherson, Andrew Bullman, John Raisin and Richard Slater (Deloitte)

Kenneth Taylor and Philip Pearson (Hymans)

1. APOLOGIES FOR ABSENCE

There were no apologies for absence received.

2. ROLL CALL AND DECLARATIONS OF INTEREST

The Chair carried out a roll call to confirm attendance. Attendance is listed above.

Councillor Jonathan Caleb-Landy declared a pecuniary interest as his wife works for Deloitte. As a result, he did not participate or vote on item 8.

3. MINUTES OF THE PREVIOUS MEETING

RESOLVED:

That the minutes of the meetings held on 3rd February 2021 were approved.

NOTE: The Chair agreed to reorder the agenda. Item 8 was given priority over items 6 and 7.

4. INDEPENDENT REVIEW OF THE GOVERNANCE ARRANGEMENTS FOR THE PENSION FUND

Phil Triggs (Director of Treasury and Pensions) introduced the report and noted that a Tri-Borough Treasury and Pensions review was commissioned in 2019 and a report published early in 2020. The review concluded that the Tri-Borough arrangement for Treasury and Pensions should continue and a further recommendation determined that officers should carry out an independent governance review of the Council's Pension Fund. The report summarised the suggested way forward on each of the 32 recommendations as an outcome of the governance review.

John Raisin (LGPS practitioner) noted that overall, this review concluded that the Pension Fund Sub-Committee had since 2015 exercised careful and considered oversight, governance and positive decision making in respect of the Council's Pension Fund based on the information provided to it. The members of the Pension Fund Sub-Committee had, on the basis of the evidence examined, sought to discharge their responsibilities diligently.

There were however a number of areas where there was scope for clear improvement in the future Governance of the Fund. These were covered in detail in the report. In particular there had been material weaknesses in relation to Pensions Administration. These however did not relate to the approach or actions of the Pension Fund Sub-Committee.

Councillor Rowan Ree queried the reasons for proposing six voting councillors for the membership of the new Pension Fund Committee. In response John Raisin explained that it was recommended that the new elected membership be six voting councillors, and this number was recommended in line with the Council's current practice across the majority of its Committee memberships.

Councillor Rowan Ree asked for further clarification to be provided on paying an allowance to the Local Pension Board members for attendance at Board meetings. David Abbott (Head of Governance) explained that the proposal was for Local Pension Board members to be paid the same allowance as co-opted members – currently £504 per year. Any allowances approved would be payable from the Pension Fund.

The Chair queried the process and timeline for the creation of the new Pension Fund Committee. In response David Abbott noted that if the Pension Fund Sub-Committee endorsed the new terms of reference, the changes would be made at the next Full Council meeting on 28 April 2021.

Michael Adam (Co-opted member) queried if there had been any proposed changes to the role of the Pension Board. John Raisin (LGPS practitioner) noted that the role of the new Pension Fund Committee would be to exercise on behalf of the Council all of the powers and duties of the Council in relation

to its functions as Administering Authority of the London Borough of Hammersmith and Fulham Pension Fund. The role of the Pension Board would be to assist the Administering Authority and there had been no recommendations to propose any changes of the current governance arrangements between the Committee and Board.

The Chair asked for further clarification to be provided on the different timelines for achieving all of the 32 recommendations. Phil Triggs explained that a timeline for each of the 32 recommendations had been set out in the officer report. Phil Triggs resolved to bring an update to each subsequent committee to update on progress made with regard to each of the recommendations.

RESOLVED:

That the Pension Fund Sub-Committee noted the report which sets out the officer responses to the 32 recommendations made by the review.

5. PROPOSED IMPROVEMENTS TO PENSION FUND GOVERNANCE ARRANGEMENTS

David Abbott (Head of Governance) introduced the report and provided a summary of the key points.

RESOLVED:

That the Pension Fund Sub-Committee:

- Noted the recommendations of the independent review by John Raisin Financial Services Limited and the officer responses, as set out in the report.
- Endorsed the proposed terms of reference of the new Pension Fund Committee as set out in Appendix 1
- Endorsed the terms of reference as set out in Appendix 1 that the Monitoring Officer is authorised to refer the changes to the terms of reference for approval to Full Council.

6. PENSIONS ADMINISTRATION UPDATE

David Hughes (Director of Audit, Fraud, Risk and Insurance) presented the report and gave a summary of the key points. He provided an overview of the progress made since November 2020 around 9 key areas of activity. This included the timetable for implementation of the new retained team, the procurement of the new service provider and the data improvement programme. It was noted that Local Pensions Partnership Administration (LPPA) agreed to enter into a delegation agreement with the Council for the provision of the Council's administration service. Officers were working with LPPA to ensure that this agreement was put in place.

Councillor Matt Thorley queried whether officers felt confident in achieving the draft project plan and milestones as set out on page 47 of the agenda pack. In response David Hughes explained that officers were working closely with LPPA to develop a detailed project plan, which also included elements of the

exit plan being discussed with Surrey County Council (SCC), to ensure a smooth transfer from SCC and implementation of the new service with LPPA on 1st February 2022.

RESOLVED:

That the Pension Fund Sub-Committee noted the contents of this report and that further updates would be provided over the project duration.

7. PENSIONS ADMINISTRATION PERFORMANCE

Eleanor Dennis (Pensions Manager) presented the report and gave a summary of the key points. The Key Performance Indicators (KPI's) for SCC for the last quarter (November 2020 to January 2021) were below the level required from the Council's administrators but had improved in key areas such as deaths. Officers continued to work with SCC to understand the activity trends and challenge poor performance.

Councillor Matt Thorley asked for an update on the progress of the data cleansing exercise, relating to the backlog casework. In response Eleanor Dennis explained that a third part contractor (ITM) had been appointed to carry out the work required on backlog cases. This work would cover analysis and enquiries to collate data required and uploading new data to member records.

Councillor Matt Thorley noted that SCC's telephone service was operating on a reduced basis since March 2020 and asked how this had impacted the service provided to members. Eleanor Dennis explained that the reduced service was implemented solely for reasons relating to logistics as a result of the Covid-19 pandemic. Members were still able to contact SCC electronically and there was a customer promise to respond to "quick win" emails within 3 days.

RESOLVED:

That the Pension Fund Sub-Committee considered and noted the contents of this report.

8. INVESTMENT CONSULTANCY PROCUREMENT

Matthew Hopson (Strategic Investment Manager) presented the report and gave a summary of the key points. It was noted that the Pension Fund contract for investment consultancy, currently with Deloitte, would expire at the 31st March 2021. Officers had conducted a joint procurement exercise with Westminster City Council which had now concluded. This was concluded using the National LGPS Framework, a well-established framework, giving the fund access to all the best available providers in the space.

Two providers responded to the invitation to tender, with the scoring and analysis of each provider set out in Appendix 1 to this report. Hymans Robertson and Deloitte had been invited to this meeting to respond to the two following clarification questions asked by the Council and receive any follow-up questions that the Sub-Committee might have.

- 1) Can you please detail separately how you would tailor your service differently to meet the needs of Hammersmith and Fulham?
- 2) Please can explain your approach to ESG monitoring and performance of investment managers and how would you keep the committee up to date with this?

Philip Pearson (Hymans) and Kevin Humpherson (Deloitte) provided detailed responses to these questions during the meeting. Full details can be viewed in the recording of the meeting <https://youtu.be/wLREg3DXW3M>

Members also asked a series of follow-up questions, some of which are set out below:

Councillor Matt Thorley asked how proactive Hymans' role would be in achieving the fund's carbon neutral objective by 2030. In response Philip Pearson noted that Hymans would take a proactive role, particularly in relation to ensuring that the Pension Fund Sub-Committee was made aware of the implications to meet the goals that were set and its regulatory obligations in relation to climate change, including standards and best practice in this area. It was noted that Hymans had a specialist team who were responsible for keeping track of developments in responsible investment.

Michael Adam (Co-opted member) asked Hymans to provide further clarification on their processes for using fund buy lists when screening for potential new managers. Philip Pearson provided a detailed overview on the process undertaken by Hymans for appointing new managers based on the needs of their client. He noted that Hymans used two sets of buy lists. The difference between the two buy lists was explained in detail. One related to broader investment outcomes and the other was specifically based on managers' capabilities on responsible investment.

Councillor Matt Thorley asked Deloitte how they would balance the objectives of the Pension Fund Sub-Committee against the Environmental, Social and Governance requirements. Kevin Humpherson outlined the approach that would be taken by Deloitte to manage and achieve the objectives of the Sub-Committee.

RESOLVED:

That the Pension Fund Sub-Committee approved the recommendation to award the contract to Deloitte.

9. ACTUARIAL SERVICE PROCUREMENT

This item was withdrawn.

10. GROUND RENTS AND SOCIAL SUPPORTED HOUSING

Phil Triggs (Director of Treasury and Pensions) presented the report and gave a summary of the key points. It was noted that the associated Appendix from Deloitte provided an analysis of the recent Fund Manager presentations,

including a summary of each presentation and questions asked to the investment managers as part of the manager selection exercise held on 16 February 2021.

Members held a brief discussion around the information provided during the selection exercise and the investment decision regarding the selected managers.

Phil Triggs noted that a fresh proposal would be brought to the next Committee meeting if the criteria for occupancy rates with Henley had not been satisfied to the expectation of the Pension Fund Sub-Committee.

RESOLVED:

That the Pension Fund Sub-Committee delegate authority to the Director of Treasury and Pensions in consultation with the Chair, to invest 5% of the Pension Fund total assets with Alpha Real Capital, 2.5% with Man Group and 2.5% with Henley. The 2.5% with Henley was subject to occupancy rates improving to closer to 90% by the end of Q4 2021.

11. QUARTERLY UPDATE PACK

Kevin Humpherson (Deloitte) presented the report and gave a summary of the key points. This included an update on the performance of the Fund and recent manager developments.

Matt Hopson (Strategic Investment Manager) noted the adjustment made to the risk register in relation to the administration process from high to medium due to the recent significant progress made in this area.

RESOLVED:

That the Pension Fund Sub-Committee noted the update.

12. INDEPENDENT CONSULTANT REVIEW

Phil Triggs (Director of Treasury and Pensions) presented the report and gave a summary of the key points. It was noted that it was of the view of officers that the appointment of an individual independent advisor would offer a further, enhanced level of best ideas, investment strategy direction and governance that would further improve the Pension Fund Sub-Committee's decision-making processes. A brief summary for the role of an independent advisor to the fund was also provided.

Members expressed some concerns on how conflicting advice would be managed and influence the overall decision-making process as a result. However, members felt that the use of an experienced independent advisor would be beneficial to the Sub-Committee in adding fresh thinking to governance and investment discussions.

RESOLVED:

That the Pension Fund Sub-Committee noted the report and requested officers to proceed with a selection process and a paper on this be brought to a future meeting.

13. LEISURE DEVELOPMENT FUND: ASSET CLASS REVIEW

Phil Triggs (Director of Treasury and Pensions) introduced the report and provided an overview on the key points. It was noted that this paper provided the Pension Fund Sub-Committee with more detailed information on a niche alternative asset class in leisure development. The asset class was to be considered as a potential diversifier from mainstream asset classes in the next investment strategy review.

Members noted that they welcomed the opportunity to explore this asset class in leisure development in further detail and thanked officers for bringing this to their attention.

RESOLVED:

That the Pension Fund Sub-Committee noted the report with a further report to be brought to the next meeting.

14. 2021/22 BUSINESS PLAN

Matthew Hopson (Strategic Investment Manager) presented the report and gave a summary of the key points. It was noted that the purpose of this report was to present the 2021/22 business plan, which sets out the strategic medium-term objectives and a budget forecast for 2021/22.

Michael Adam (Co-opted member) noted that it was beneficial to be able to view all the investment management fees across one table.

RESOLVED:

That the Pension Fund Sub-Committee approved the business plan, shown in Appendix 1.

15. EXEMPT DISCUSSION (IF REQUIRED)

The sub-committee agreed, under Section 100A (4) of the Local Government Act 1972, that the public and press be excluded from the meeting during the consideration of the following items of business, on the grounds that they contain the likely disclosure of exempt information, as defined in paragraph 3 of Schedule 12A of the said Act, and that the public interest in maintaining the exemption currently outweighs the public interest in disclosing the information.

Meeting started: 6:30pm

Meeting ended: 8:53pm

Chair

Contact officer: Amrita Gill
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Agenda Item 5

London Borough of Hammersmith & Fulham

Report to: LBHF Pensions Board

Date: 09/06/2021

Subject: Update on the LGPS Pensions Administration Service

Report of: David Hughes, Director of Audit, Fraud, Risk and Insurance

Responsible Director: Rhian Davies, Director of Resources

Summary

This report follows up on update reports presented previously to the Pensions Board on the actions agreed by the Pension Fund Sub-committee on 3 February 2021 to appoint Local Pension Partnerships Administration (LPPA) to provide the Pension Administration service from 1 February 2022.

The Pensions Board and Pension Fund members need to be assured that the administration and governance of the Pension Fund is compliant with regulatory requirements, is effectively managing risk and providing a high-quality service.

Recommendations

1. That the contents of this report are noted and that further updates will be provided over the project duration.
-

Wards Affected: None

| H&F Values | Summary of how this report aligns to the H&F Priorities |
|--|---|
| Building shared prosperity | Continuing to provide assurance regarding the governance of the Pension Fund thereby encouraging employees to remain members of the LGPS. |
| Being ruthlessly financially efficient | To review and assess governance and efficiency of the Pension Fund, recommending and making changes where necessary. |
| Taking pride in H&F | Ensuring a high standard of governance of the Pension Fund that continues to underpin the retention and recruitment of employees. |

Financial Considerations

All costs of Pension Fund administration are borne by the Pension Fund. These costs include the costs of any delegated or contracted arrangements and any shared or in-house retained pensions team. Any additional costs, such as data improvement, or transitional costs of moving to another delivery model will also be charged to the Pension Fund.

Some key areas of cost are still the subject of discussion and negotiation. Any decisions required as a result of the programme of work to terminate the current delegation arrangement and transition to the new delegation arrangement will require financial implications to be included in each decision report. Following agreement of these costs a detailed programme budget will be agreed and monitored and reported to the Committee.

Finance implications verified by Emily Hill, Director of Finance.

Legal Implications

Under Regulation 53 of the Local Government Pension Scheme Regulations 2013, the Council, as the administering authority of the Pension Fund “is responsible for managing and administering the Scheme in relation to any person for which it is the appropriate administering authority under these Regulations”. Therefore, it is responsible for ensuring that the Pension Fund is administered in accordance with the Regulations and wider pensions law and other legislation.

Legal Implications verified by Adesuwa Omoregie, Head of Law.

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Background Papers Used in Preparing This Report

Reports to the Pensions Board on 19 November 2020 and 10 February 2021.

Reports to the Pension Fund Sub-Committee on 9 March 2020, 31 July 2020, 29 September 2020, 24 November 2020, 3 February 2021 and 3 March 2021.

Additional Details

Key considerations

1. This report sets out the progress made against the actions agreed by the Pension Fund Sub-committee on 31 July 2020 (to terminate the agreement with Surrey County Council) and on 3 February 2021 (to appoint LPPA as the new Pension Administration service provider from 1 February 2022). Previous updates were provided in November 2020 and February 2021.

What were the immediate actions identified in the report of 31 July 2020?

2. The Pension Fund Sub-Committee approved the recommendations set out in the Committee report of 31 July 2020, in light of the independent review of the Pensions Administration Service:
 - Reporting the concerns identified in the independent review report to the Pensions Regulator and notifying SCC that this is being done;
 - Serving 12 months' notice of termination on SCC in respect of the pension's administration service;
 - Taking necessary steps to create a detailed service specification and carry out a competitive tender for a replacement pensions administration service, engaging external expertise where appropriate;
 - Noting that the shared service arrangement with RBKC was ending on 31 December 2020 and that a suitable transition plan for the retained pensions service was required;
 - Reviewing, agreeing, implementing and monitoring a data improvement plan with SCC and RBKC; and,
 - Establishing and recruiting to the post of Retained Pensions Manager for LBHF.
3. In December 2020, having reviewed the options for a new pensions administration service provider, the Director of Resources formally served notice on SCC that the Council wished to terminate its agreement with SCC on 31 January 2022.
4. The Council is required to provide a workplace pension scheme (in accordance with the Pension Act 2004) for its employees via the Local Government Pension Scheme. The Public Sector Service Act 2013 sets out detail of membership and establishment of a pension board to oversee the managing of the public service Pension Fund. Under the Act, the Pension Regulator issues code of practice. Code 14 sets out the legal requirements for public service pension schemes and contains practical guidance and sets out standards of conduct and practice expected of those who exercise functions in relation to those legal requirements.

5. As the Council has served notice on SCC, it has taken steps to put in place a pensions administration service which is compliant with the regulations and provides an effective and high quality service to the Fund's Members and Employer bodies. On 3 February 2021, the Committee approved the recommendation for the HFPF pensions administration service to be provided by the Local Pensions Partnership Administration (LPPA) hosted by Lancashire County Council.

What are the key project risks?

6. As reported at the previous meeting of the Pensions Board, the Pensions Taskforce identified a number of key risks which need to be taken into account:

- In serving notice on SCC, insufficient time is allowed for the development of the service specification and tendering process to be completed, along with a period of mobilisation for the new provider to ensure the new service is able to fully commence at the end of the notice period.

To manage this risk, a detailed project plan was developed and is being maintained. This was being used to inform the timing of serving notice on SCC, this has already been communicated to them. As set out earlier in the report, notice was served on SCC in December 2020 to terminate the agreement on 31 January 2022. The Sub-committee have approved entering into a delegation agreement for the service to be provided by LPPA, with a clear and achievable timetable proposed to ensure the new service can go live on 1 February 2022.

- The new Retained Pensions Team is not created and put in place in a timely manner or has insufficient capacity to manage the transition period and transfer of functions from RBKC by 31 December 2020.

A structure for the Retained Pensions Team was agreed and a successful recruitment undertaken. The Pensions Manager commenced on 2 November 2020; two permanent Pensions Advisors were appointed in December 2020 and in January 2021. Changes to the structure were agreed by the Taskforce, to include a temporary resource which commenced ahead of the transition of functions from the RBKC shared retained team at the end of December 2020. A detailed transition plan was put in place and reviewed on a weekly basis. The transfer of functions was completed as per the transition plan.

- Lack of market engagement (including potential public sector providers) leads to an inadequate specification being developed and tendered against which fails to attract competitive responses, does not provide value for money for the Council or does not enable implementation of the new service by the end of the notice period with SCC.

Following the steer from the Pension Fund Sub-committee to consider both public and private providers, the Taskforce engaged with a number of public providers (including Hampshire County Council who provide the Finance, HR and Payroll service to the Council under a partnership agreement). Reference sites were also engaged. In parallel and to consider the suitability of progressing a competitive tendering exercise for the new pension administration provider, a pre-competition engagement exercise has been undertaken. Following consideration of the options the Taskforce agreed to pursue the public-public provider option, with the existing

partnerships being evaluated in detail. That evaluation led to the recommendation to the Sub-committee on 3 February 2021, to enter into a delegation agreement for the service to be provided by LPPA, which was approved.

- The Pension Fund's data held by SCC is not subject to sufficient data improvement work, impacting on the Pension Fund's ability to attract competitive tenders for the new service or failing to secure a value for money service through the procurement.

A detailed data improvement plan was developed and agreed. The Pensions Taskforce have been reviewing the data improvement work carried out by SCC and RBKC and procured a third party to undertake work on the backlog cases recently identified by SCC. This work was agreed under an officer decision report, in consultation with the Chair of the Sub-committee, and is currently in progress.

7. In recognising the key risks above, the Taskforce have developed a detailed Project Plan is structured around 9 key areas of activity, which are set out below and for which progress to date is then detailed in the following sections:

- **Workforce and Recruitment:** *including recruitment of a Retained Pensions Manager and other new positions (permanent and project-based), transfer of existing roles in shared team;*
- **Procurement:** *including the procurement of new service provider with parallel consideration of potential for public-public partnership, extension of existing system/software provider, procurement of specialist support for transition/data improvement work;*
- **Data Improvement Programme:** *including data improvement programme provided by SCC, backlog issue identified by SCC, undecided leavers review by carried out by the RBKC Retained Team, relationship with the Pensions Regulator;*
- **Legal/Contractual:** *including serving of 12 Months' Notice on SCC to terminate and reaching agreement on the fee proposal from SCC;*
- **Transfer of Retained Functions from RBKC:** *including agreeing a transfer/handover plan, carrying out pre- and post-transfer activities including data and casework transfers;*
- **SCC Exit Plan:** *agree Exit Plan, regular monitoring against plan with SCC;*
- **Governance Arrangements:** *reporting/assurance to SLT and Members;*
- **Communications:** *with stakeholders at key milestones including transfer of retained functions and implementation of new provider;*
- **Budget:** *current budget and additional costs from SCC, exit/transition period cost, new steady state service budget.*

Progress since November 2020 on project workstreams

Workforce and Recruitment

8. Recruitment to the Retained Team structure has been challenging in finding the right calibre of candidate with proven LGPS experience for key posts, however this continues to advance. With new team members joining in the next few months to enhance the team's resilience and provide sufficient capacity and support to the Pensions Manager to deliver on the transfer and setting up of the new service. Transition of all of the retained functions previously managed by RBKC is complete and the in-house team are delivering a good retained service.

9. The structure for the new Retained Pensions Team, ensures there is sufficient resource to run the service on a day to day basis, to progress the data improvement work which is already in hand, to manage the exit from the SCC arrangement and to plan and implement the new service with LPPA.
10. As previously reported, agreement was reached with RBKC to retain one specialist role which were part of the shared retained team, with the Council securing the services of the individual and using them on a recharge basis with RBKC to provide specialist expertise on the Teachers' Pension Scheme. However, it is anticipated that this specialist knowledge will be shared amongst the team to ensure resilience and ensure the team is able to maintain service in times of absence.

Procurement

Pensions administration service

11. At its meeting on 3 February 2021 the Sub-committee received a detailed report setting out the consideration of options for procuring the pensions administration service from both private sector and public-public providers. The Taskforce evaluation of these options found that the public-public provider route was most likely to meet the HFPP objectives and lead to the appointment of and an experienced LGPS provider where the HFPP would play an active role in the partnership governance and development of the service.
12. Following a detailed evaluation of three public-public providers, as presented to the Sub-committee on 3 February 2021, officers recommended entering into a delegation agreement for the service to be provided by LPPA (hosted by Lancashire County Council), with a clear and achievable timetable proposed to ensure the new service can go live on 1 February 2022.
13. Following an initial project start meeting with colleagues from LPPA following the Sub-committee's approval, a formal resolution was put to the full Council meeting at Lancashire County Council on 25 February 2021 to propose that Lancashire County Council agrees to the London Borough of Hammersmith and Fulham delegating its pension fund administration function to Lancashire County Council pursuant to section 101 of the Local Government Act 1972. This is subject to both parties entering into an appropriate legal agreement. Officers are working with LPPA to ensure that this agreement is put in place.

Pensions Administration Software Contract

14. LBHF have a direct contract with the Aquila Heywood who are the software providers of the pension administration system, Altair, which is used by SCC to administer the LBHF pension fund. The contract grants the LBHF a licence to use the Altair software (in this instance via SCC). The contract term was originally for 5 years, with the option to take up two one-year extensions. The RBKC Retained Team extended the contract for one year from March 2020.
15. The Pensions Manager has progressed, discussions with Aquila Heywood, and a further one-year extension, agreed by means of an officer decision report which maintains LBHF in contract until March 2022 and allows the Altair software to continue to be used for the remainder of the SCC pension administration delegation agreement term.

16. The Pensions Manager has also engaged with Aquila Heywood to assist SCC with the extraction of data to transfer to LPPA as well as the deletion of the Fund Data from SCC servers post go-live at an additional cost of £87,500. This support has already commenced with Aquila Heywood providing information required for the first tranche of data that was transferred to LPPA in May 2021.

Caseload backlog project

17. To carry out key data improvement work during the transition period, officers sought and received quotations with a view to engage a provider to support the delivery of the Data Improvement Programme, specifically for the review and remediation of backlog cases previously identified by SCC.
18. A contract has been awarded by the Director of Resources, in consultation with the Chair of the Sub-committee, to ITM, for a maximum cost of £70,000. ITM will carry out the remediation of each case on a fixed fee basis and the number of cases will be confirmed when the actual number of backlog cases currently held is provided shortly by SCC.
19. Given the nature and complexity of this work, it is expected that the project will take an estimated 6 months to complete.
20. A separate report is being presented to the Board on the same agenda regarding SCC's administration performance.

Undecided leavers

21. The shared RBKC Retained Pensions Team had undertaken an exercise to review data quality concerns in respect of undecided leavers. Fund members are identified as such when they leave the Council's or an admitted body's employment but do not confirm whether they wish to defer their pension or to transfer it to another scheme.
22. The Retained Pensions Team had collated data for around 800 cases, which has recently been uploaded by SCC into the pensions administration system. Following the upload, about 600 cases were successfully updated and further work was completed in January 2021 address the remaining cases.

Backlog issues

23. As reported previously, a further matter came to light in August 2020 relating to a backlog in processing core casework by SCC in relation to leavers' records for the LBHF Fund. This was identified when SCC provided a costed proposal to deal with the backlog in casework.
24. The backlog relates to four processes mainly related to those leaving the Fund, namely: frozen refunds, refunds, deferred pensions and aggregations. Following a procurement exercise, ITM have been appointed to carry out the work required on backlog cases. This was previously estimated in February 2020 to account for just under 1,700 leaver records (covering members from both LBHF and its fund employers) but is now around 1,500 records. The work being undertaken by ITM will include identifying missing or incorrect data and bringing the member's record up to date at a cost of up to £70,000.

25. The Pensions Manager has negotiated a reduction in some of the fees to ensure that the work is completed within the estimated budget and is working with ITM to complete the processing of the backlog ahead of the transfer to LPPA. Separate updates on the progress of the project will be provided to the Sub-Committee and Pensions Board in future meetings when required.

Legal/Contractual

26. Following the Committee's approval of the recommendation to serve 12 months' notice of termination on SCC, the Taskforce assessed the key risks to ensuring a smooth transition to a new service provider to determine the optimum time to serve notice on SCC. Based on the assessment of risks and factors including the likely mobilisation period required for a new provider, the Taskforce agreed to serve notice on SCC in December 2020 so that the agreement with SCC would come to an end on 31 January 2022 with a new service provider being in place by 1 February 2022.
27. The fee discussions with SCC have been concluded and the revised fee for the service from 1 September 2020 has been agreed.

Transfer of Retained Functions from RBKC

28. Having agreed a detailed plan for the transfer of functions from RBKC to the new LBHF Retained Team this plan was successfully executed, including training of staff, transfer of data and live caseload. All functions and data were successfully transferred to LBHF by 31 December 2020. Communication was provided to all fund employers and stakeholders to ensure they were aware of the transfer to the LBHF Retained Team from January 2021.

SCC Exit Plan

29. Under the delegation agreement with SCC, a draft Exit Plan is to be agreed. The delegation agreement allows for SCC to charge reasonable costs relating to the exit process. An indication of potential exit costs was provided by SCC in July 2020, along with the framework (headings) for the exit plan which has been part of the ongoing discussions. The Director of Audit, Fraud, Risk and Insurance and Pensions Manager continue to work closely with SCC to develop and agree both the exit plan, and key project plan activities, timescales and responsibilities, in consultation with LPPA to ensure that all key activities, responsibilities and timescales are documented and agreed.
30. The Pensions Taskforce will carry out regular monitoring against the plans when agreed and will ensure regular meetings are held with SCC to monitor and progress the implementation of the agreed plan. Update reports on progress against the plan will also be provided to Members.

Governance Arrangements

31. The Pensions Taskforce provides the day to day oversight for the project, reporting on a regular basis to the Chief Executive (and SLT Assurance) on progress. Update reports will be provided to Members of the Sub-Committee against the nine key areas in the project plan identified above. Update reports will also be provided to the Pensions Board.

Communications

32. A key part of the project will be ensuring appropriate communications with stakeholders at key milestones during the project. An initial communication was sent to Fund employers and stakeholders when the Pensions Manager commenced in early November 2020.
33. The Pensions Manager is reviewing the Pension Fund website contact pages to ensure that active members, deferred members and pensioners are provided with appropriate information regarding the new service, including ways of contacting the Team and providing information relating to their pension records.

Budget

34. The costs of pensions administration are met by the Pension Fund. The Pensions Manager works with the Treasury team to manage the budget. Budget accountability will sit with this role and the Assistant Director, Transformation, Talent and Inclusion.
35. Discussions have concluded with SCC in respect of the fee for the service from 1 September 2020 and any likely additional costs arising from the exit plan to be agreed with SCC are monitored on a monthly basis.
36. Budgets will be agreed with Finance for the transition period up to the new contract being awarded and then the steady state service budget required from February 2022. Performance against the agreed budget will be subject to regular monitoring with Finance in the usual manner.

Implementation timetable

37. An indicative implementation timetable provided by Local Pensions Partnership Administration (LPPA) was set out in the report to the Pension Fund Sub-committee on 3 February 2021. This is set out for information in Appendix 1. Officers are working closely with LPPA to develop a detailed project plan, which also includes elements of the exit plan being discussed with SCC, to ensure a smooth transfer from SCC and implementation of the new service with LPPA on 1 February 2022.

Risk Management Implications

38. The report sets out the key risks being managed on the project and the main mitigations being progressed by officers are set out throughout the report.

Risk: Pension provider record keeping and administration provisions:

39. The Council is the accountable body responsible for ensuring that members of the Pension Fund receive the best possible service which is in compliance with regulations. It continues to act at pace following identification of the risks and issues involved. Performance of the Pensions Administrator was affected by a combination of administrative, data quality and contract risks discovered by the Council in late 2019. These risks are being managed by the Pensions Taskforce in accordance with the council's Programme Management Office approach.

Implications verified by Michael Sloniowski, Risk Manager, tel 020 8753 2587.

Appendix 1: Project Plan provided by LPPA showing a detailed breakdown of key activities and milestones

| Month | Key Activities/Milestones |
|--------------|--|
| Mar 2021 | <ul style="list-style-type: none"> • Project Manager assigned to project & governance set up • Definition phase begins • System configuration stage begins • System configuration stage complete • Communications plan drafted for stakeholders (members & employers) |
| Apr 2021 | <ul style="list-style-type: none"> • Definition phase complete • Data migration and UAT begins • Business process review begins |
| May 2021 | <ul style="list-style-type: none"> • Data cut 1 signed off • Member web – CMS scoping begins |
| Jun 2021 | <ul style="list-style-type: none"> • Data cut 2 begins • Employer web (EAS) scoping begins • Communication plan agreed including member web registration and employer web on-board |
| Jul 2021 | <ul style="list-style-type: none"> • Business process sign off • Training plan for employers drafted and agreed |
| Aug 2021 | <ul style="list-style-type: none"> • Data cut 2 signed off |
| Sep 2021 | <ul style="list-style-type: none"> • Ongoing migration & UAT • H&F meet key members of the LPPA operations team |
| Oct 2021 | <ul style="list-style-type: none"> • Member web sign off • Employer web sign off |
| Nov 2021 | <ul style="list-style-type: none"> • Data extracts, parallel runs for payroll begin |
| Dec 2021 | <ul style="list-style-type: none"> • UPM and web released into operations • Issue welcome letters to members |
| 1 Feb 2022 | <ul style="list-style-type: none"> • Go-live |

Agenda Item 6

London Borough of Hammersmith & Fulham

Report to: Pension Board

Date: 09 June 2021

Subject: Pension Administration Performance Update

Report of: Eleanor Dennis, Pensions Manager

Executive Summary

1.1 This paper sets out a summary of the performance of Surrey County Council (SCC) in providing a pension administration service to the Fund. The Key Performance Indicator (KPI) for the period January 2021 – April 2021 inclusive as shown in the Appendix 1.

Recommendations

1. The Pension Board is asked to consider and note the contents of this report.
-

Wards Affected: None

H&F Priorities

| Our Priorities | Summary of how this report aligns to the H&F Priorities |
|--|---|
| <ul style="list-style-type: none">• Being ruthlessly financially efficient | Ensuring good governance for the Pension Fund should ultimately lead to better financial performance in the long run for the Council and the council tax payer. |

Financial Impact

- None

Legal Implications

- None
-

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Background Papers Used in Preparing This Report

KPI Report

1.0 KPI Performance

- 1.1. The KPI's have been set out in the delegation agreement between SCC and the London Borough of Hammersmith & Fulham (LBHF). The Pensions Manager ensures performance measures are discussed and reviewed between both parties on a monthly basis. In accordance with Code 14 of the Pension Regulator's Code of Practice that states that the scheme manager should hold regular meetings with their service providers to monitor performance.
- 1.2. The Board should note that during the Covid-19 pandemic The Pension Regulator asked Fund's to work with their administrators to ensure that there was a minimum focus on the delivery of pay impacting tasks i.e. retirements, refunds, deaths and understands as a consequence delivery on other tasks such as transfers will be impacted, which is demonstrated in the Funds KPI's on transfer tasks.
- 1.3. Unfortunately, the number of deaths has increased during the first three months of the year, but this has fallen significantly in April, to levels more in line with pre Covid levels. However, you will note SCC's ability to respond promptly to these cases has improved as they have recently introduced a new process that we are seeing reflected in the improved KPI's for March and April.
- 1.4. As the team have improved processes, we can also see their ability to process the number of new retirements in line with the agreed SLA's has also increased, to 100% for the first time in 4 months.
- 1.5. The performance on the processing of transfer ins estimates and payments continue to lag but performance levels have increased by 21% and 27% respectively.

2. Telephone Helpdesk

- 2.1 The Pension Regulator in response to the Covid-19 pandemic has stressed the importance of pension administrators remaining accessible for members whether that be by email, telephone or post.
- 2.2 There are no defined KPI's for the SCC helpdesk in the delegation agreement other than the requirement for a telephone service that operates Monday to Friday 8.30am – 5pm. Although the service had been operating on a reduced basis of 10 -12am and 2 - 4pm since March 2020, the original service hours have been reinstated since May 2021. Although fund specific customer satisfaction data is not available the majority is positive.
- 2.3 Over the last 4 months the volume of calls to the dedicated telephone helpdesk has increased but a higher percentage are being resolved on the call rather than being passed to the back office admin team.

3.0 Summary

- 3.1 The KPI's for the last quarter (January to April 2021) are still below the desired level we require from our administrators, but we have seen improvements in key areas such as deaths and retirement. The pensions manager continues to work with SCC to understand the activity trends and challenge poor performance.
- 3.2 Despite the understanding that the Fund is choosing to exit from SCC in February 2022, in addition to other Funds exiting their services, they remain committed to continue to process efficiently as many cases as possible and are still recruiting to help maintain delivery.
- 3.3 Both the SCC exit team and the business as usual team continue to work collaboratively with LBHF in the best interests of the Pension Fund, it's members and beneficiaries.

KPI Report - Hammersmith and Fulham Pension Fund
January - April 2021

| Description | Target time/date as per Partnership Agreement (working days) | Target | Actual Score Jan | Total No of completed cases | No of cases late | Actual Score Feb | Total No of completed cases | No of cases late | Actual Score March | Total No of completed cases | No of cases late | Actual Score April | Total No of completed cases | No of cases late |
|--|--|--------|------------------|-----------------------------|------------------|------------------|-----------------------------|------------------|--------------------|-----------------------------|------------------|--------------------|-----------------------------|------------------|
| Pension Administration | | | | | | | | | | | | | | |
| Death Benefits | | | | | | | | | | | | | | |
| Write to dependant and provide relevant claim form | 5 days | 100% | 86% | 28 | 4 | 70% | 23 | 7 | 100% | 22 | 0 | 100% | 9 | 0 |
| Set up any dependants benefits and confirm payments due, including concluding any under or overpayments. | 10 days | 100% | 73% | 11 | 3 | 65% | 23 | 8 | 62% | 21 | 8 | 40% | 25 | 15 |
| Retirement Notification | | | | | | | | | | | | | | |
| request for retirement acknowledged, recorded and documentation sent to member | 10 days | 100% | 50% | 26 | 13 | 70% | 60 | 18 | 48% | 50 | 26 | 73% | 44 | 12 |
| Retirements | | | | | | | | | | | | | | |
| New retirement benefits processed for payment following receipt of claim forms | 7 days | 100% | 73% | 11 | 3 | 50% | 6 | 3 | 73% | 15 | 4 | 100% | 22 | 0 |
| Deferred retirement benefits processed for payment following receipt of claim forms | 7 days | 100% | 89% | 18 | 2 | 100% | 14 | 0 | 92% | 24 | 2 | 87% | 23 | 3 |
| Refunds of Contributions | | | | | | | | | | | | | | |
| Refund paid following receipt of claim form | 10 days | 100% | 98% | 42 | 1 | 85% | 20 | 3 | 92% | 59 | 5 | 90% | 21 | 2 |
| Deferred Benefits | | | | | | | | | | | | | | |
| Statements sent to member following receipt of leaver notification | 20 days | 100% | 88% | 8 | 1 | 46% | 13 | 7 | 53% | 15 | 7 | 42% | 24 | 14 |
| Estimates | | | | | | | | | | | | | | |
| Early Retirement requests from employer | 10 days | 100% | 94% | 33 | 2 | 63% | 96 | 36 | 63% | 24 | 9 | 100% | 12 | 0 |
| Projections | | | | | | | | | | | | | | |
| Requests from employees | 10 days | 100% | 63% | 8 | 3 | 33% | 3 | 2 | 100% | 3 | 0 | 100% | 2 | 0 |
| New Joiners | | | | | | | | | | | | | | |
| New starters processed | 30 days | 100% | #DIV/0! | | | 100% | 33 | 0 | 100% | 106 | 0 | 100% | 44 | 0 |
| Transfers In | | | | | | | | | | | | | | |
| Quote estimate to scheme member (includes interfunds) | 20 days | 100% | 25% | 8 | 6 | 50% | 10 | 5 | 25% | 16 | 12 | 57% | 37 | 16 |
| Transfers In | | | | | | | | | | | | | | |
| Transfers-in payments processed | 20 days | 100% | 63% | 8 | 3 | 54% | 13 | 6 | 58% | 19 | 8 | 67% | 18 | 6 |
| Transfers Out | | | | | | | | | | | | | | |
| Transfers-out quotations processed (includes interfunds) | 20 days | 100% | 53% | 32 | 15 | 59% | 17 | 7 | 56% | 16 | 7 | 80% | 25 | 5 |
| Transfers Out | | | | | | | | | | | | | | |
| Transfers out payments processed | 20 days | 100% | 57% | 7 | 3 | 50% | 10 | 5 | 77% | 13 | 3 | 78% | 9 | 2 |
| No of complaints received within the month | n/a | 100% | N/a | 0 | | N/a | 1 | | N/a | 1 | | N/a | 0 | |
| No of complaints resolved within the month | 30 days | 100% | N/a | 0 | | 100% | 1 | 0 | 100% | 1 | 0 | N/a | 0 | |
| No of compliments received within the month | n/a | N/a | N/a | 0 | | N/a | 1 | | N/a | 3 | | N/a | 1 | |
| Monthly Pensioner Payroll | | | | | | | | | | | | | | |
| Full reconciliation of payroll and ledger report provided to Borough | Last day of month | | Achieved | | | Achieved | | | Achieved | | | Achieved | | |
| Issue of monthly payslips | 3 days before pay day | | Achieved | | | Achieved | | | Achieved | | | Achieved | | |
| RTI file submitted to HMRC | 3 days before pay day | | Achieved | | | Achieved | | | Achieved | | | Achieved | | |
| BACS File submitted for payment | 3 days before pay day | | Achieved | | | Achieved | | | Achieved | | | Achieved | | |
| Annual Exercises | | | | | | | | | | | | | | |
| Annual Benefit Statements | | | | | | | | | | | | | | |
| Issued to Active members | 31 August each year | | Achieved | | | Achieved | | | Achieved | | | Achieved | | |
| Issued to Deferred members | 31 August each year | | Achieved | | | Achieved | | | Achieved | | | Achieved | | |
| P60s Issued to Pensioners | 31 May each year | | Achieved | | | Achieved | | | Achieved | | | Achieved | | |
| Apply Pensions Increase to Pensioners | April each year | | Achieved | | | Achieved | | | Achieved | | | Achieved | | |
| Pensioners Newsletter | April each year | | Achieved | | | Achieved | | | Achieved | | | Achieved | | |

| Helpdesk Volumes | |
|------------------------------|-----------------|
| Total Queries Handled | First Point Fix |

London Borough of Hammersmith & Fulham

Report to: Local Pension Board

Date: 9 June 2021

Subject: Independent Review of the Governance Arrangements for the Pension Fund

Report of: Phil Triggs, Director of Treasury and Pensions

Executive Summary

1.1 This paper provides the Local Pension Board with the report of an independent consultant commissioned by officers reference an independent review of the governance arrangements for the pension fund.

Recommendations

1. This paper was presented to the Pensions Sub-Committee on 3 March 2021 who noted it and is now being provided to the Pensions Board for information.

Wards Affected: None

LBHF Priorities

| Our Priorities | Summary of how this report aligns to the H&F Priorities |
|--|---|
| <ul style="list-style-type: none">• Being ruthlessly financially efficient | Ensuring good governance for the Pension Fund should ultimately lead to better financial performance in the long run for the Council and the council tax payer. |

Financial Impact

- None

Legal Implications

- None
-

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Verified by Phil Triggs

Background Papers Used in Preparing This Report

Consultant report

DETAILED ANALYSIS

1. Background

- 1.1. A Tri-Borough Treasury and Pensions review was commissioned in 2019 and a report published early in 2020. The review concluded that the Tri-Borough arrangement for Treasury and Pensions should continue and a further recommendation determined that officers should carry out an independent governance review of the LBHF Pension Fund.
- 1.2. An experienced LGPS practitioner was appointed, John Raisin, ex S151 officer of LB Waltham Forest.
- 1.3. John completed his governance report in November 2020 and the report is attached as Appendix 1.
- 1.4. The report conclusion on page 3, which relates to the approach of the Pensions Sub-Committee, states that its Members have "...sought to discharge their responsibilities diligently."
- 1.5. The Tri-Borough Treasury and Pensions Team and LBHF officers have spent much time digesting the report and its 32 recommendations, many of which are very easily implemented, some of which will need to be carried out after the implementation of the new pensions administration service, and some which will require further consideration as necessary.
- 1.6. This report summarises where officers stand on the recommendations and the suggested way forward on each of the 32 recommendations.

REPORT RECOMMENDATIONS

2. Changes to the Committee Structure

Recommendation 1

- 2.1. The Council give consideration to the removal of all reference to the Pensions function from the Terms of Reference of the Audit and Pensions Committee and that this Committee be renamed the Audit Committee.

The Director of Resources and Head of Governance have indicated their agreement to this change.

Timeline: immediate. Separate report for 3 March 2021 agenda.

Recommendation 2

- 2.2. The Council give consideration to revising the Constitution to place all responsibility for the LGPS pensions function with the Pension Fund Sub-

Committee and that this be renamed “The Pension Fund Committee” and that its elected member membership be 6 voting councillors.

The Director of Resources and Head of Governance have agreed to the renaming of the Pension Fund Sub-Committee which will be renamed “The Pension Fund Committee” in order to bring the Council’s approach in its decision making in line with the vast majority of other LGPS Administering Authorities across England and Wales. The membership will increase from four to six.

Timeline: immediate. Separate report for 3 March 2021 agenda.

Recommendation 3

- 2.3. To amend the Responsibilities of the Pension Fund Sub-Committee (The Pension Fund Committee) as set out in Appendix 2 of this report.

The Director of Resources and Head of Governance have agreed to the updated terms of reference (attached as Appendix 2) to more broadly cover investment issues, governance and pensions administration, and to reflect changes in the LGPS Regulations 2013 and the LGPS (Management and Investment of Funds) Regulations 2016.

Timeline: immediate. Separate report for 3 March 2021 agenda.

Recommendation 4

- 2.4. The Pension Fund Sub-Committee (The Pension Fund Committee) actively seek to co-opt one or two non-administering authority non-voting members in order that Employers beyond the LBHF may participate in the decision making forum of the LBHF Pension Fund.

The Director of Resources and Head of Governance regard this as good practice as indicated in the 2008 Statutory Guidance.

Timeline: immediate.

Recommendation 5

- 2.5. The Pension Fund Sub-Committee (The Pension Fund Committee) actively seek to co-opt a non-voting Employee representative.

The Director of Resources and Head of Governance regard this as good practice as indicated in the 2008 Statutory Guidance.

Timeline: immediate.

3. Changes to Pensions Administration

Recommendation 6

- 3.1. The Officers involved in preparing future LBHF Pension Fund Annual Reports specifically ensure both the inclusion and consideration of the Pension Administration Strategy as required by the LGPS Regulations and relevant Statutory Guidance.

The Tri-Borough Director of Treasury of Pensions agrees.

The Pensions Manager agrees.

Timeline: immediate

Recommendation 7

- 3.2. The Pensions Sub-Committee seek assurance from the Officers that the Annual Report and Statement of Accounts for 2019/20 have been prepared taking careful account of relevant Statutory Guidance (particularly that relating to preparing the Annual Report) and that in future years the Officers confirm this in the covering report presenting the draft Annual Report and Accounts.

The Tri-Borough Director of Treasury and Pensions agrees.

The Pensions Manager agrees.

Timeline: immediate

Recommendation 8

- 3.3. A Training Needs Assessment is urgently completed in respect of all Pension Board Members and that a comprehensive programme of training to address identified needs (including coverage of recent and current developments in the LGPS) be provided as soon as practical.

The Tri-Borough Director of Treasury and Pensions agrees. A comprehensive programme of training to address identified needs (including coverage of recent and current developments in the LGPS) will be provided as soon as practical.

The Pensions Manager agrees.

Timeline: immediate

Recommendation 9

- 3.4. That consideration be given to paying an allowance to Local Pension Board Members for actual attendance at Board Meetings (including any training held before a Board meeting).

The Director of Resources and Head of Governance have agreed that, in line with the Council's Members allowance scheme, Local Pension

Board members should be paid a flat rate allowance of £504 per annum payable by equal monthly instalments of £42.00 on the 15th of each month. Any allowances approved would be payable from the Pension Fund.

Timeline: immediate

Recommendation 10

- 3.5. A report and procedure relating to reporting Breaches of the Law, which is in accordance with the relevant guidance in The Pension Regulator's Code of Practice No 14, is urgently prepared for consideration and approval by the Pension Fund Sub-Committee.

The Tri-Borough Director of Treasury and Pensions agrees. A draft will be prepared in collaboration with the Pensions Manager.

The Pensions Manager agrees but delivery will be challenging with the current priorities and will aim to present this to the Committee and Board in the coming scheme year 2021/22.

Timeline: by 31 March 2022

Recommendation 11

- 3.6. Training on reporting Breaches of the Law is provided jointly for both Members of the Pension Fund Sub-Committee and the Local Pension Board as a matter of urgency.

The Tri-Borough Director of Treasury and Pensions agrees.

The Pensions Manager agrees.

Timeline: by 31 March 2022

Recommendation 12

- 3.7. A Breaches of the Law Log be maintained and is presented on a quarterly basis to the Pension Fund Sub-Committee and to each meeting of the Pension Board.

The Tri-Borough Director of Treasury and Pensions agrees.

The Pensions Manager agrees.

Timeline: immediate

Recommendation 13

- 3.8. The LBHF Knowledge and Skills Self-Assessment form (for Sub-Committee and Pension Board Members) be expanded to include a specific new section on Pensions Administration.

The Tri-Borough Director of Treasury and Pensions agrees.

The Pensions Manager agrees.

Timeline: by 31 March 2022

Recommendation 14

- 3.9. Appropriate training in respect of Pensions Administration be provided to both Sub-Committee and Local Pension Board Members as soon as practical.

The Tri-Borough Director of Treasury and Pensions agrees.

The Pensions Manager agrees, though this should be provided by an external source.

Timeline: by 31 March 2022

Recommendation 15

- 3.10. That consideration is given to scheduling regular training sessions, immediately before Pension Fund Sub-Committee meetings.

The Tri-Borough Director of Treasury and Pensions agrees. This already takes place routinely. The Tri-Borough team is also arranging its third half-day session in 2020/21 (across the Tri-Borough authorities), to be held on 25 February 2021.

The Pensions Manager agrees.

Already implemented

4. Finance and Risk

Recommendation 16

- 4.1. A comprehensive LBHF Pension Fund Medium Term Business Plan incorporating an Annual Plan and a detailed Annual Budget, is developed and approved annually by the Pension Fund Sub-Committee and formally monitored on a quarterly basis.

The Tri-Borough Director of Treasury and Pensions agrees. The business plan and budget 2021/22 are an agenda item for the 3 March 2021 committee meeting.

The Pensions Manager agrees.

Timeline: included within agenda for 3 March 2021

Recommendation 17

- 4.2. The LBHF Pension Fund annual budget should be sufficient to meet all statutory requirements, the expectations of regulatory bodies and provide a good service to Scheme members and Employers.

The Tri-Borough Director of Treasury and Pensions agrees. The business plan and budget 2021/22 are an agenda item for the 3 March 2021 committee meeting.

The Pensions Manager agrees.

Timeline: included within agenda for 3 March 2021

Recommendation 18

- 4.3. That a Pensions risk policy be prepared for approval by the Pension Fund Sub-Committee which sets out the Pension Funds approach to risk. This should include a clear statement on the responsibilities of Officers in relation to Risk Management.

The Tri-Borough Director of Treasury and Pensions agrees. Risk registers are already routinely published for every committee and board meeting. A risk policy is being compiled in partnership with the Pensions Manager and the Council's Risk Manager.

The Director of Audit, Fraud, Risk and Insurance agrees and the risk policy should be aligned to the Council's overall risk policy, as well as being designed to cover the purpose and objectives of the Pension Fund. Key risks from the Pension Fund Risk Register will also be considered for inclusion in the Council's Corporate Risk Register.

Timeline: by 31 March 2022

Recommendation 19

- 4.4. Officers review the Risk Management process to seek to ensure that any revised process results in the effective implementation and utilisation of a Risk Management Cycle.

The Tri-Borough Director of Treasury and Pensions agrees. The Risk Management Cycle is set out in pages 4 to 7 of the CIPFA publication "Managing Risk in the Local Government Pension Scheme." (December 2018). This will be incorporated in the Risk Policy documentation.

The Pensions Manager agrees.

The Director of Audit, Fraud, Risk and Insurance agrees and the Council's Risk Manager will advise and support Pension Fund officers with this review. Following the implementation of the updated Risk Management Cycle, an internal audit review will be undertaken to provide independent assurance.

Timeline: by 31 March 2022

Recommendation 20

- 4.5. The Risk Register is redesigned with risks listed under each of the seven headings in the CIPFA Guidance on managing risks in the Local Government Pension Scheme, issued in 2018.

The Tri-Borough Director of Treasury and Pensions agrees. The Risk Register will be redesigned.

The Pensions Manager agrees and will collaborate on the redesign.

The Director of Audit, Fraud, Risk and Insurance agrees and the Council's Risk Manager will advise and support Pension Fund officers with the redesign of the Risk Register.

Timeline: by 31 March 2022

5. Audit

Recommendation 21

- 5.1. The LBHF Pension Fund have a separate and specific Annual Internal Audit Plan, approved by the Pension Fund Sub-Committee which includes a focus on Pension Administration issues in their broadest sense, both those carried out by the LBHF Pension Fund directly and those delegated to a third-party Pensions Administrator.

The Tri-Borough Director of Treasury and Pensions agrees and will liaise with both Internal Audit and the Pensions Manager.

The Pensions Manager agrees.

The Director of Audit, Fraud, Risk and Insurance will ensure that, following discussions with the Tri-Borough Director of Treasury and Pensions and Pensions Manager and a review of the Pension Fund Risk Register, that items will be included in the Internal Audit Plan presented to the Audit Committee. The elements of the Internal Audit Plan relating to the Pension Fund will also be reported to the Pensions Sub-Committee.

Timeline: to be incorporated into the Internal Audit planning cycle for 2021/22, where the plan will be reviewed on a quarterly basis

Recommendation 22

- 5.2. The Annual Internal Audit Plan should include Audits undertaken/Assurance reports commissioned by the LBHF Pension Fund from the Internal Audit service of the external Pensions Administration provider.

The Tri-Borough Director of Treasury and Pensions agrees and will liaise with Internal Audit.

The Pensions Manager agrees.

The Director of Audit, Fraud, Risk and Insurance will liaise with the Internal Audit service of the external Pensions Administration provider to establish the scope and nature of the work they plan to carry out on the service or have already completed. This will help to determine what reliance they can place on this work in planning work to be undertaken by the Council's Internal Audit Team.

Timeline: to be incorporated into the Internal Audit planning cycle for 2021/22, where the plan will be reviewed on a quarterly basis

6. External Employer Membership

Recommendation 23

- 6.1. A report to the Pension Fund Sub-Committee be prepared in respect of any "Community Admission Body" in the LBHF Pension Fund which specifically identifies the current position regarding their covenant with the Fund and which makes proposals for the ongoing monitoring and, as appropriate, strengthening of these covenant arrangements.

The Tri-Borough Director of Treasury and Pensions agrees.

The Pensions Manager agrees.

Timeline: by 31 March 2022

7. Communications and Administration

Recommendation 24

- 7.1. Given the Communications Policy has not been updated since 2016 it should be reviewed and updated as a matter of urgency and a new version presented to the Pension Fund Sub-Committee for their consideration and approval.

The Tri-Borough Director of Treasury and Pensions agrees

The Pensions Manager agrees, but delivery will be challenging with the current priorities, and will aim to present this to the Committee and Board in the coming scheme year 2021/22.

The Director of Audit, Fraud, Risk and Insurance, as chair of the Pensions Taskforce, agrees with the Pension Manager's assessment.

Timeline: by 31 March 2022

Recommendation 25

- 7.2. As the Pensions Administration Strategy dates from 2016, it should be thoroughly and comprehensively reviewed as soon as practical including meaningful consultation with all Scheme Employers and Members of the Pension Board.

The Tri-Borough Director of Treasury and Pensions agrees.

The Pensions Manager hopes to present a revised administration strategy in line with the LGPS guidance in the coming scheme year, but is mindful of large scale priority reference the change of administration provider. The impact of this on the in-house team should not be underestimated.

The Director of Audit, Fraud, Risk and Insurance, as chair of the Pensions Taskforce, agrees with the Pension Manager's assessment and notes that a new suite of KPIs (which are a key element of an administration strategy) will be agreed with the new service provider as part of the Delegation Agreement before the service goes live on 1 February 2022.

Timeline: by 31 December 2022

8. The Pensions Regulator (tPR) and Code of Practice 14

Recommendation 26

- 8.1. As a matter of urgency the Pension Fund Sub-Committee, and the Pension Board, receive a report and briefing from Officers on the requirements of The Pension Regulators Code of Practice No 14 "Governance and administration of public service pension schemes" of April 2015 and the implications and requirements of subsequent statements, surveys and reports issued by The Pensions Regulator applicable to the LGPS since 2015.

The Tri-Borough Director of Treasury and Pensions agrees.

The Pensions Manager notes the independent review by Gareth Hopkins, the implementation of a Pensions Taskforce, the recruitment of an inhouse pension administration team and the confirmation and selection of a new pension administration provider will already address

key issues. Therefore, it would be more appropriate to revisit this after the implementation of the new pension administration provider in 2022.

The Director of Audit, Fraud, Risk and Insurance, as chair of the Pensions Taskforce, agrees with the Pensions Manager's assessment.

Timeline: by 31 December 2022

Recommendation 27

- 8.2. As a matter of urgency, a review of compliance with the requirements of Code of Practice No 14, and any subsequent requirements of The Pensions Regulator, be commissioned and recommendations agreed to address areas of limited or non-compliance.

The Tri-Borough Director of Treasury and Pensions agrees.

The Pensions Manager notes the independent review by Gareth Hopkins, the implementation of a Pensions Taskforce, the recruitment of an in-house pension administration team and the confirmation and selection of a new pension administration provider will already addresses key issues. Therefore, it would be more appropriate to revisit this after the implementation of the new pensions administration provider in 2022.

The Director of Audit, Fraud, Risk and Insurance, as chair of the Pensions Taskforce, agrees with the Pensions Manager's assessment.

Timeline: by 31 December 2022

9. Fund Actuary

Recommendation 28

- 9.1. That the Fund Actuary should be fully appraised of the situation relating to the state and quality of the data/records of LBHF Pension Fund members as held by the Pensions Administration service provided by Surrey County Council and be asked for their comments, observations and suggestions with regard to this issue.

The Tri-Borough Director of Treasury and Pensions agrees. Data quality and its improvement is a major consideration and the Pensions Manager is very aware of the need for continual improvement. Such progress and the journey to quality improvement can be measured by the actuary.

The Pensions Manager is aware of the data issues in the Fund and is engaging with a third party, ITM, to address these in the coming year. The Pensions Manager is aware of the commentary and services that the actuary can provide and already carries out. This applies especially at the

time of the triennial valuation, when the actuary provides detailed information on gaps and faults in membership data.

Timeline: by 31 March 2022 (date of the actuarial valuation)

10. Tenders and Contract Awards

Recommendation 29

- 10.1. That appropriate expertise specifically relating to the LGPS, including as necessary, external support should be available in the formulation of the contract/tender documentation, actual contract award process and subsequent monitoring arrangements for the new external Pensions Administration service provider. Cognisance should also be taken of relevant CIPFA Guidance including “Administration in the LGPS A guide for pensions authorities” (November 2018) and “Managing Risk in the LGPS” (December 2018).

The Tri-Borough Director of Treasury and Pensions agrees. Work is currently being undertaken reference the contract documentation following the selection and appointment of a new pensions administration provider.

The Pensions Manager confirms that the Pensions Taskforce have already engaged with independent consultant, Gareth Hopkins, and are also consulting with Pension Fund legal advisors, Eversheds.

The Director of Audit, Fraud, Risk and Insurance, as chair of the Pensions Taskforce, confirms that appropriate internal and external specialist advice and support have been engaged to support the implementation of a delegation agreement for the service to be provided by Local Pensions Partnership (LPP), an experienced LGPS pensions administration provider.

Timeline: immediate

11. Management Structure

Recommendation 30

- 11.1. The LBHF Pension Fund carefully and seriously consider combining all activity of the Fund under a single senior officer.

This item needs discussion. The current responsibilities pertaining to the governance of the pension fund encompass two departments currently and a single officer responsibility will need to take account of this, as well as taking account of arrangements at the other Tri-Borough authorities.

The Pensions Manager notes that this recommendation has wider implications for the Tri-Borough service and the structure of both the Director of Resources and the Director of Finance team. A separate investigation is required if it is something that the Committee wishes to explore but the Committee should be mindful of the timing of such an investigation/implementation to ensure it avoids change saturation.

Timeline: not urgent and not subject to any deadline

Recommendation 31

- 11.2. Should the scope of the role of an existing officer be expanded to cover all the activity of the Pension Fund proper consideration be given to reviewing and consequently enhancing their terms and conditions of service including remuneration.

See 11.1.

Timeline: not urgent and not subject to any deadline

12. Advisors

Recommendation 32

- 12.1. The Pension Fund Sub-Committee consider the appointment of an Independent Advisor with a remit across the Governance, Investment, Funding, Pensions Administration and Training activity of the LBHF Pension Fund.

A separate report is included within the agenda.

The Pensions Manager agrees in principle that this is good practice but feels this should be periodic engagement rather than continuous, i.e., every two years.

Timeline: no deadline stated

List of Appendices:

Appendix 1: John Raisin Consultant Report (Exempt)

Appendix 2: Pension Fund Committee Proposed Terms of Reference

**SUGGESTED REVISED VERSION
Pension Fund Committee
Terms of Reference**

To exercise on behalf of the Council all of the powers and duties of the Council in relation to its functions as Administering Authority of the London Borough of Hammersmith and Fulham Pension Fund. This includes but is not limited to the following matters:

- a. Reviewing and approving the statutory policies of the Fund including the Governance Compliance Statement, Funding Strategy Statement, Investment Strategy Statement, Pension Administration Strategy, Communications Strategy.
- b. To determine the arrangements for the appointment of the Fund Actuary, Investment Consultant and any other Advisor that it may be determined appropriate to appoint.
- c. To agree an annual Internal Audit Plan in respect of the Pension Fund which will include, at least, an annual assurance review of the Pensions Administration service.
- d. To regularly receive and review a comprehensive Risk Register relating to the activities of the Pension Fund.
- e. To agree the Business Plan and Annual Budget of the Fund.
- f. To agree the Pension Fund Annual Report and Financial Statements.
- g. To determine, approve and regularly monitor the arrangements relating to the provision of all matters relating to Pensions Administration functions and the provision of a Pensions Administration Service to the Pension Fund.
- h. To receive regular performance monitoring reports, in such form as it determines, in respect of the Pensions Administration Service.
- i. To review and approve a Reporting Breaches of the Law procedure for the Pension Fund and to regularly receive the Breaches Log.
- j. To make and review an Admission Policy relating to the admission of employers to the Fund and be responsible for determining the admission of employers to the Fund.

- k. To agree the investment strategy and strategic asset allocation having regard to the advice of the Investment Consultant.**
- l. To determine the Fund management arrangements, including the appointment and termination of the appointment of Fund Managers.**
- m. To monitor the performance of the Pension Fund's appointed Fund Managers.**
- n. To determine the relationship of the Pension Fund with the London Collective Investment Vehicle (LCIV) and to monitor its activity and performance.**
- o. To determine the arrangements for the provision of Additional Voluntary Contributions (AVCs) for Fund members.**
- p. To ensure that the Covenants of Employers are thoroughly assessed as required and at least during every triennial actuarial valuation.**
- q. To receive from the Fund Actuary actuarial valuations of the Fund.**
- r. To consider and determine a response to any advisory recommendation received from the Local Pension Board.**
- s. To receive and consider the external auditors Annual Plan and Annual Report on the Pension Fund.**
- t. To ensure compliance with all relevant statutes, regulations, government guidance and other codes and best practice as applicable to the Local Government Pension Scheme.**
- u. To determine such other policies that may be required so as to comply with the requirements of Government or bodies acting on behalf of Government.**
- v. To ensure all members of the Committee undertake appropriate and ongoing training to fulfil their responsibilities.**

London Borough of Hammersmith & Fulham

Report to: Local Pension Board

Date: 9 June 2021

Subject: Pension Fund Quarterly Update Pack

Report of: Patrick Rowe, Pension Fund Manager

Executive Summary

1.1 This paper provides the Local Pension Board with summary of the Pension Fund's:

- a. overall performance for the quarter ended 31 March 2021;
- b. cashflow update and forecast;
- c. assessment of risks and actions taken to mitigate these.

Recommendations

1. The Local Pension Board is recommended to note the update.
-

Wards Affected: None

H&F Priorities

| Our Priorities | Summary of how this report aligns to the H&F Priorities |
|--|---|
| <ul style="list-style-type: none">• Being ruthlessly financially efficient | Ensuring good governance for the Pension Fund should ultimately lead to better financial performance in the long run for the Council and the council tax payer. |

Financial Impact

- None

Legal Implications

- None
-

Contact Officer(s):

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Name: Phil Triggs
Position: Director of Treasury and Pensions
Telephone: 020 7641 4136
Email: ptriggs@westminster.gov.uk

Verified by Phil Triggs

Background Papers Used in Preparing This Report

None

DETAILED ANALYSIS

1. LBHF Pension Fund Quarterly Update – Q4 2020/21

- 1.1. This report and attached appendices make up the pack for the quarter four (Q4) ended 31 March 2021. An overview of the Pension Fund's performance is provided in Appendix 1. This includes administrative, investment, and cash management performance for the quarter.
- 1.2. Appendix 2 contains the Pension Fund's report on the latest updates with regards to the integration of the environmental, social and governance (ESG) factors as part of the its investment strategy.
- 1.3. The highlights from the quarter are shown below:
 - In general, this has been a positive quarter for equity markets due to a number of positive activities that have taken place over this quarter, mainly being the release of the COVID-19 vaccine, giving some form of assurance of events returning to some normality, and the continued belief by scientists of its efficacy.
 - Overall, the investment performance report shows that over the quarter to 31 March 2021, following the downturn in markets caused by the COVID-19 outbreak, the market value of the assets increased by £28m to £1,213.2m.
 - The Fund performed in line with the benchmark net of fees by delivering a return of 2.93% over the quarter to 31 March 2021, and the estimated funding level was 96.6% as at 31 March 2021.
 - Over the year to 31 March 2021, the fund overperformed against its benchmark by 2.84%.
 - The highlights over the quarter to 31 March 2021 came from the performance of the LCIV Absolute Return Fund and Oak Hill Advisors, who both outperformed their 'cash plus' benchmark.
- 1.4. The Pension Fund's cashflow monitor is provided in Appendix 3. This shows both the current account and invested cash movements for the last quarter, as well as cashflow forecasts to 31 December 2021. An analysis of the differences between the actuals and the forecasts for the quarter is also included.
- 1.5. Appendix 4 contains the Pension Fund's Risk Registers.

2. Risk Management Implications

2.1 This is included in the risk registers.

3. Other Implications

3.1. n/a

4. Consultation

4.1. n/a

List of Appendices:

Appendix 1: Pension Fund ESG Report

Appendix 2: Cashflow Monitoring Report


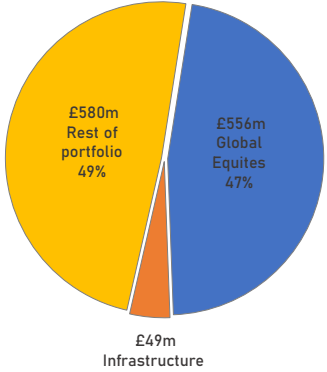



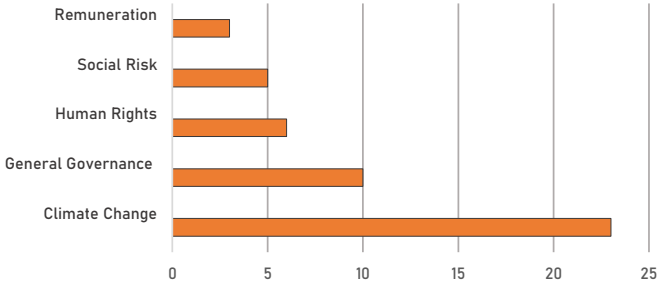
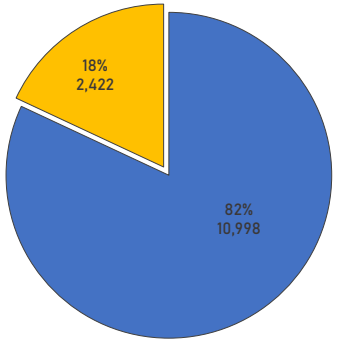
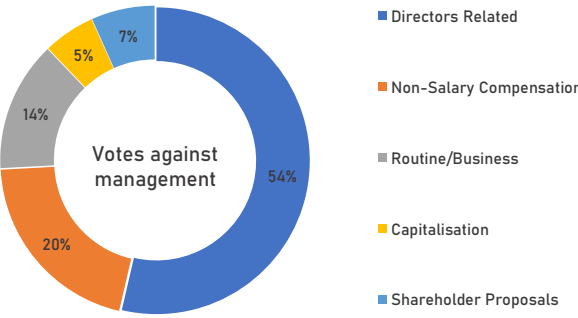
Appendix 3: Pension Fund Risk Registers.

Scorecard at 31 March 2021

London Borough of Hammersmith and Fulham Pension Fund Quarterly

Monitoring Report

| | Mar 20 | Jan 21 | Feb 21 | March 21 | Report reference |
|-------------------------|---------|----------|---------|----------|---|
| Value (£m) | 1,006.4 | 1, 168.7 | 1,178.2 | 1, 213.2 | IRAS performance report |
| % return quarter | -8.8% | 5.68% | 1.51% | 2.93% | |
| % return one year | -2.9% | 6.67% | 10.44% | 21.89% | |
| LIABILITIES | | | | | |
| Value (£m) | 1,100 | | | 1,225* | *note that the most recent liability figures for March 2021 are not yet available so December 2020 is shown as a comparator, though deficit and funding level have been left blank intentionally. |
| Surplus/(Deficit) (£m) | (25) | | | | |
| Funding Level | 98% | | | | |
| MEMBERSHIP | | | | | |
| Active members | 4,332 | | | 4,467 | |
| Deferred beneficiaries | 6,840 | | | 5,914 | |
| Pensioners | 5,111 | | | 5,368 | |
| Employers | 50 | | | 57 | |
| CASHFLOW | | | | | |
| Cash balance | £1.6m | £1.6m | £2.0m | £2.7m | Appendix 3 |
| Variance from forecast | £0.0m | £0.1m | £0.35m | £1.4m | |
| RISK | | | | | |
| No. of new risks | 0 | 0 | 0 | 0 | Appendix 4: Risk Register |
| No. of ratings changed | 0 | 0 | 0 | 0 | |
| LGPS REGULATIONS | | | | | |
| New consultations | None | None | None | None | |
| New sets of regulations | None | None | None | None | |

| Environmental, Social & Governance (ESG) Report | | 31 March 2021 | | Key Highlights | | Investment in Low Carbon Assets | |
|---|--|--|--|---|--|--|--|
| <p>The London Borough of Hammersmith & Fulham Pension Fund is committed to being a responsible investor. In line with this commitment, the Pension Fund recognises Environmental, Social & Governance (ESG) factors to be integral to its investment strategy.</p> <p>The Pension Fund has a target to achieve carbon neutrality by 2030.</p> | | | |  <p>57% CO₂ emissions saved by investing in the MSCI Low Carbon Fund</p> | | <p>£609mil 54%</p> | |
|  | |  <p>46.3k estimated number of cars kept of the road each year by investing in renewable energy¹</p> | |  <p>114 number of engagements by LGIM on Social topics during the last quarter.</p> | | <p>Low Carbon Investments £000</p> | |
| | | <p>Estimated Carbon Savings (tonnes p/a)</p> | |  <p>38 number of companies engaged over the last quarter by LAPFF</p> | | <p>Equities 556,181</p> <p>Aviva Infrastructure 25,546</p> <p>Partners Infrastructure 23,647</p> <p>LCIV Green Bonds 3,220</p> | |
| | | <p>MSCI Low Carbon Aviva Infrastructure</p> <p>44.7k 10.1k</p> | | | | | |
| <p>Although the Pension Fund does not invest through the use of segregated mandates, fund managers are expected to develop a voting framework consistent with the Pension Fund's own voting policy. The fund managers' voting activity for this quarter is reported below. At present, the Pension Fund holds pooled equity investments with Legal & General Investment Management and the London CIV, through its Absolute Return Fund (Ruffer).</p> | | | | <p>LAPFF Engagement</p> <p>The Pension Fund is a member of the Local Authority Pension Fund Forum (LAPFF), the UK's leading collaborative shareholder engagement group. LAPFF regularly engages with companies to encourage best practice and ensuring that they have the right policies in place to create value.</p> | | | |
| <p>Voting Summary</p> | | <p>Voting Breakdown</p> | |  | | | |
|  | |  | | | | | |

¹Source: Aviva Investors/ERM. Data as at 30 June 2018. Car equivalency calculation based on 2016 5 door hatchback; 10,000 p.a (Carbon Footprint)

Pension Fund Current Account Cashflow Actuals and Forecast for period: Jan 2021 to Mar 2021

| | Jan-21 | Feb-21 | Mar-21 | Apr-21 | May-21 | Jun-21 | Jul-21 | Aug-21 | Sep-21 | Oct-21 | Nov-21 | Dec-21 | F'cast Annual Total | F'cast Monthly Total |
|---|--------------|----------------|--------------|----------------|----------------|--------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------------|----------------------|
| | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | | |
| | Actual | Actual | Actual | F'cast | F'cast | F'cast | F'cast | F'cast | F'cast | F'cast | F'cast | F'cast | | |
| Balance b/f | 1,008 | 1,615 | 1,971 | 2,692 | 1,077 | 262 | 2,147 | 532 | 1,718 | 603 | 988 | 173 | £000s | £000s |
| Contributions | 2,456 | 2,433 | 2,839 | 2,600 | 2,600 | 5,600 | 2,600 | 2,600 | 2,600 | 2,600 | 2,600 | 2,600 | 34,128 | 2,844 |
| Pensions | (3,026) | (3,035) | (3,115) | (3,115) | (3,115) | (3,115) | (3,115) | (3,115) | (3,115) | (3,115) | (3,115) | (3,115) | (37,210) | (3,101) |
| Lump Sums | (1,271) | (408) | (733) | (600) | (600) | (600) | (600) | (600) | (600) | (600) | (600) | (600) | (7,812) | (651) |
| Net TVs in/(out) | 1,080 | (297) | 1,768 | (300) | (300) | (300) | (300) | (300) | (300) | (300) | (300) | (300) | (149) | (12) |
| Net Expenses | (31) | (37) | (38) | (200) | (200) | (200) | (200) | (200) | (200) | (200) | (200) | (200) | (1,906) | (159) |
| Net Cash Surplus/(Deficit) | (793) | (1,344) | 721 | (1,615) | (1,615) | 1,385 | (1,615) | (1,615) | (1,615) | (1,615) | (1,615) | (1,615) | (12,950) | (1,079) |
| Distributions | 1,400 | 1,700 | - | - | 800 | 500 | - | 800 | 500 | - | 800 | 500 | 7,000 | 583 |
| Net Cash Surplus/(Deficit) including investment income | 607 | 356 | 721 | (1,615) | (815) | 1,885 | (1,615) | (815) | (1,115) | (1,615) | (815) | (1,115) | (5,950) | (496) |
| Withdrawals from Custody Cash | | - | | | - | - | - | 2,000 | | 2,000 | - | 2,000 | 6,000 | 750 |
| Balance c/f | 1,615 | 1,971 | 2,692 | 1,077 | 262 | 2,147 | 532 | 1,718 | 603 | 988 | 173 | 1,058 | 50 | 254 |

Page 55

Current Account Cashflow Actuals compared to forecast for period: Jan 2021 to Mar 2021

| | Jan-21 | | Feb-21 | | Mar-21 | | Jan-Mar 21 |
|-------------------------------|------------|------------|------------|------------|--------------|------------|------------|
| | Forecast | Actual | Forecast | Actual | Forecast | Actual | Variance |
| | £000s | £000s | £000s | £000s | £000s | £000s | £000s |
| Contributions | 2,600 | 2,456 | 2,600 | 2,433 | 2,600 | 2,839 | (72) |
| Pensions | (3,300) | (3,026) | (3,300) | (3,035) | (3,300) | (3,115) | 724 |
| Lump Sums | (600) | (1,271) | (600) | (408) | (600) | (733) | (612) |
| Net TVs in/(out) | 200 | 1,080 | 200 | (297) | 300 | 1,768 | 1,851 |
| Expenses | (200) | (31) | (200) | (37) | (200) | (38) | 494 |
| Distributions | - | 1,400 | 2,000 | 1,700 | 500 | 0 | 600 |
| Withdrawals from Custody Cash | 2,000 | - | - | - | - | - | (2000) |
| Total | 700 | 607 | 700 | 356 | (700) | 721 | 984 |

Notes on variances during quarter:

- Distributions of £1.4m were paid to the fund during the quarter. The forecast for the next quarter for this amount is to decrease slightly as the overweight to position of Ruffer will be corrected.
- Lump sums and net transfer values are difficult to forecast on a month basis, however, the forecast over the quarter is generally in line with expectations.

**Pension Fund Custody Invested Cashflow Actuals and Forecast for period:
Jan 2021 to Mar 2021**

| | Jan-21 | Feb-21 | Mar-21 | Apr-21 | May-21 | Jun-21 | Jul-21 | Aug-21 | Sep-21 | Oct-21 | Nov-21 | Dec-21 | F'cast Annual Total | F'cast Monthly Total |
|---|--------------|--------------|----------------|------------|------------|--------------|------------|--------------|----------------|-----------|----------------|----------------|---------------------------|----------------------------|
| | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | £000s | | |
| | Actual | Actual | Actual | F'cast | F'cast | F'cast | F'cast | F'cast | F'cast | F'cast | F'cast | F'cast | | |
| Balance b/f | 3,485 | 4,775 | 4,932 | 444 | 444 | 444 | 244 | 244 | (1,756) | 44 | (1,956) | (1,956) | £000s | £000s |
| Sale of Assets | - | - | - | | | 1,000 | | 2,000 | 1,000 | | | 2,000 | 6,000 | 857 |
| Purchase of Assets | (4) | (4) | (4,488) | | | (1,200) | | | (1,200) | | | | (6,896) | (1,379) |
| Net Capital Cashflows | (4) | (4) | (4,488) | 0 | 0 | (200) | 0 | 2,000 | (200) | 0 | 0 | 2,000 | (896) | (75) |
| Distributions | 1,295 | 161 | 0 | - | - | - | - | - | 2,000 | - | - | - | 3,456 | 288 |
| Interest | (1) | (0) | (0) | | | | | | | | | | (2) | (1) |
| Management Expenses | 0 | 0 | 0 | | | | | | | | | | 0 | 0 |
| Foreign Exchange Gains/Losses | 0 | 0 | 0 | | | | | | | | | | 0 | 0 |
| Class Actions | - | - | - | | | | | | | | | | 0 | 0 |
| Net Revenue Cashflows | 1,294 | 161 | (0) | 0 | 0 | 0 | 0 | 0 | 2,000 | 0 | 0 | 0 | 3,455 | 288 |
| Net Cash Surplus/(Deficit) excluding withdrawals | 1,290 | 157 | (4,488) | 0 | 0 | (200) | 0 | 2,000 | 1,800 | 0 | 0 | 2,000 | 2,559 | 213 |
| Withdrawals from Custody Cash | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (2,000) | 0 | (2,000) | 0 | (2,000) | (6,000) | (500) |
| Balance c/f | 4,775 | 4,932 | 444 | 444 | 444 | 244 | 244 | 244 | 2,044 | 44 | 44 | 44 | (3,441) | (287) |

London Borough of Hammersmith and Fulham Pension Fund Risk Register - Administration Risk

| Risk Group | Risk Ref. | Risk Description | Impact | | | | Likelihood | Current risk score | Previous risk score | Movement | Mitigation actions | Revised likelihood | Total risk score | Reviewed on |
|---------------------------|-----------|---|--------|-----------|------------|-------|------------|--------------------|---------------------|----------|--|--------------------|------------------|-------------|
| | | | Fund | Employers | Reputation | Total | | | | | | | | |
| Asset and Investment Risk | 1 | The global outbreak of COVID-19 poses economic uncertainty across the global investment markets. Valuations of illiquid assets such as property and infrastructure are increasingly difficult to determine. | 5 | 4 | 2 | 11 | 4 | 44 | 44 | ↔ | TREAT 1) Officers will continue to monitor the impact lockdown measures have on the fund's underlying investments and the wider economic environment 2) The Fund will continue to review its asset allocation and make any changes when necessary 3) The Fund holds a well diversified portfolio, which should reduce the downside risks of adverse stock market movements. | 3 | 33 | 10/09/2020 |
| Asset and Investment Risk | 2 | Significant volatility and negative sentiment in global investment markets following disruptive geopolitical and economic uncertainty | 5 | 4 | 1 | 10 | 4 | 40 | 40 | ↔ | TREAT 1) Continued dialogue with investment managers regarding management of political risk in global developed markets. 2) Investment strategy integrates portfolio diversification and risk management. 3) The Fund alongside its investment consultant continually reviews its investment strategy in different asset classes. | 3 | 30 | 10/09/2020 |
| Asset and Investment Risk | 3 | Volatility caused by uncertainty regarding the withdrawal of the UK from the European Union, including the failure to agree to a trade deal and the economic fallout after the transition period at the end of 2020. | 4 | 4 | 1 | 9 | 3 | 27 | 27 | ↔ | TREAT 1) Officers to consult and engage with advisors and investment managers. 2) Possibility of hedging currency and equity index movements. 3) The UK exited the EU on 31 January 2020, there is now a transition period until the end of 2020. During this time current rules on trade, travel and business for the UK and EU will apply. | 3 | 27 | 10/09/2020 |
| Asset and Investment Risk | 4 | There is insufficient cash available to the Fund to meet pension payments due to reduced income generated from underlying investments, leading to investment assets being sold at sub-optimal prices to meet pension obligations. | 5 | 4 | 3 | 12 | 3 | 36 | 36 | ↔ | TREAT 1) Cashflow forecast maintained and monitored. Cashflow position reported to sub-committee quarterly. 2) The Fund receives quarterly income distributions from some of its investments to help meet its short term pensions obligations. 3) The fund will review the income it receives from underlying investments and make suitable investments to meet its target income requirements. | 2 | 24 | 10/09/2020 |
| Asset and Investment Risk | 5 | The London Collective Investment Vehicle (LCIV) disbands or the partnership fails to produce proposals/solutions deemed sufficiently ambitious. | 5 | 4 | 3 | 12 | 2 | 24 | 24 | ↔ | TORELATE 1) Partners for the pool have similar expertise and like-mindedness of the officers and members involved with the fund, ensuring compliance with the pooling requirements. 2) Monitor the ongoing fund and pool proposals are comprehensive and meet government objectives. 3) The LCIV has recently bolstered its investment team with the successful recruitment of a permanent CIO, Head of Responsible Investment & Client Relations Director. 4) Fund representation on key officer groups. | 2 | 24 | 10/09/2020 |
| Asset and Investment Risk | 6 | Investment managers fail to achieve benchmark/outperformance targets over the longer term: a shortfall of 0.1% on the investment target will result in an annual impact of £1.1m. | 5 | 3 | 3 | 11 | 3 | 33 | 33 | ↔ | TREAT 1) The Investment Management Agreements (IMAs) clearly state LBHF's expectations in terms of investment performance targets. 2) Investment manager performance is reviewed on a quarterly basis. 3) The Pension Fund Committee is positioned to move quickly if it is felt that targets will not be achieved. 4) Portfolio rebalancing is considered on a regular basis by the Pension Fund Committee. 5) The Fund's investment management structure is highly diversified, which lessens the impact of manager risk compared with less diversified structures. | 2 | 22 | 10/09/2020 |
| Asset and Investment Risk | 7 | Global investment markets fail to perform in line with expectations leading to deterioration in funding levels and increased contribution requirements from employers. | 5 | 3 | 2 | 10 | 3 | 30 | 30 | ↔ | TREAT 1) Proportion of total asset allocation made up of equities, fixed income, property funds and other alternative asset funds, limiting exposure to one asset category. 2) The investment strategy is continuously monitored and periodically reviewed to ensure optimal risk asset allocation. 3) Actuarial valuation and strategy review take place every three years post the actuarial valuation. 4) IAS19 data is received annually and provides an early warning of any potential problems. 5) The actuarial assumption regarding asset outperformance is regarded as achievable over the long term when compared with historical data. | 2 | 20 | 10/09/2020 |

| | | | | | | | | | | | | | | |
|---------------------------|----|---|---|---|---|----|---|----|----|---|--|---|----|------------|
| Asset and Investment Risk | 8 | Implementation of proposed changes to the LGPS (pooling) does not conform to plan or cannot be achieved within laid down timescales | 3 | 2 | 1 | 6 | 3 | 18 | 18 | ↔ | TOLERATE 1) Officers consult and engage with MHCLG, LGPS Scheme Advisory Board, advisors, consultants, peers, various seminars and conferences. 2) Officers engage in early planning for implementation against agreed deadlines. 3) Uncertainty surrounding new MHCLG guidance | 3 | 18 | 10/09/2020 |
| Asset and Investment Risk | 9 | London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence are unable to address underachieving fund managers. | 3 | 3 | 2 | 8 | 3 | 24 | 24 | ↔ | TREAT 1) Tri-Borough Director of Treasury & Pensions is a member of the officer Investment Advisory Committee which gives the Fund influence over the work carried out by the London CIV. 2) Officers continue to monitor the ongoing staffing issues and the quality of the performance reporting provided by the London CIV. | 2 | 16 | 10/09/2020 |
| Asset and Investment Risk | 10 | Impact of economic and political decisions on the Pension Fund's employer workforce. | 5 | 2 | 1 | 8 | 2 | 16 | 16 | ↔ | TOLERATE 1) Barnet Waddingham uses prudent assumptions on future of employees within workforce. 2) Employer responsibility to flag up potential for major bulk transfers outside of the LBHF Fund. 3) Officers to monitor the potential for a significant reduction in the workforce as a result of the public sector financial pressures. | 2 | 16 | 10/09/2020 |
| Asset and Investment Risk | 11 | Failure to keep up with the pace of change regarding economic, policy, market and technology trends relating to climate change | 3 | 2 | 1 | 6 | 3 | 18 | 18 | ↔ | TREAT 1) Officers regularly receive updates on the latest ESG policy developments from the fund managers. 2) The Pensions Fund is a member of the Local Authority Pension Fund Forum (LAPFF) which engages with companies on a variety of ESG issues including climate change. | 2 | 12 | 10/09/2020 |
| Asset and Investment Risk | 12 | Insufficient attention paid to environmental, social and governance (ESG) issues, leading to reputational damage. The Council declared a climate emergency in July 2019, the full impact of this decision is uncertain. | 3 | 2 | 1 | 6 | 3 | 18 | 18 | ↔ | TREAT 1) Review ISS in relation to published best practice (e.g. Stewardship Code, Responsible Investment Statement) 2) The Fund currently holds investments all it passive equities in a low carbon tracker fund, and is invested in renewable infrastructure. 3) The Fund's actively invests in companies that are contributing to global sustainability through its Global Core Equity investment 4) The Fund has updated its ESG Policy and continues to review its Responsible Investment Policy 5) The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), which raises awareness of ESG issues and facilitates engagement with fund managers and corporate company directors. | 2 | 12 | 10/09/2020 |
| Asset and Investment Risk | 13 | Mismatching of assets and liabilities, inappropriate long-term asset allocation or investment strategy, mistiming of investment strategy | 5 | 3 | 3 | 11 | 2 | 22 | 22 | ↔ | TREAT 1) Active investment strategy and asset allocation monitoring from Pension Fund Committee, officers and consultants. 2) Officers, alongside the Fund's advisor, set fund specific benchmarks relevant to the current position of fund liabilities. 3) Fund manager targets set and based on market benchmarks or absolute return measures. | 1 | 11 | 27/05/2021 |
| Asset and Investment Risk | 14 | Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation. | 5 | 3 | 2 | 10 | 2 | 20 | 20 | ↔ | TREAT 1) At time of appointment, the Fund ensures advisers have appropriate professional qualifications and quality assurance procedures in place. 2) Committee and officers scrutinise, and challenge advice provided routinely. | 1 | 10 | 27/05/2021 |
| Asset and Investment Risk | 15 | Financial failure of third party supplier results in service impairment and financial loss. | 5 | 4 | 1 | 10 | 2 | 20 | 20 | ↔ | TREAT 1) Performance of third party suppliers regularly monitored. 2) Regular meetings and conversations with global custodian (Northern Trust) take place. 3) Actuarial and investment consultancies are provided by two different providers. | 1 | 10 | 27/05/2021 |
| Asset and Investment Risk | 16 | Failure of global custodian or counterparty. | 5 | 3 | 2 | 10 | 2 | 20 | 20 | ↔ | TREAT 1) At time of appointment, ensure assets are separately registered and segregated by owner. 2) Review of internal control reports on an annual basis. 3) Credit rating kept under review. | 1 | 10 | 27/05/2021 |
| Asset and Investment Risk | 17 | Financial failure of a fund manager leads to value reduction, increased costs and impairment. | 4 | 3 | 3 | 10 | 2 | 20 | 20 | ↔ | TREAT 1) Adequate contract management and review activities are in place. 2) Fund has processes in place to appoint alternative suppliers at similar price, in the event of a failure. 3) Fund commissions the services of Legal & General Investment Management (LGIM) as transition manager. 4) Fund has the services of the London CIV. | 1 | 10 | 27/05/2021 |

| | | | | | | | | | | | | | | |
|----------------|----|---|---|---|---|----|---|----|----|---|---|---|----|------------|
| Liability Risk | 18 | Failure to identify GMP liability leads to ongoing costs for the pension fund. | 3 | 2 | 1 | 6 | 1 | 6 | 6 | ↔ | TREAT 1) GMP to be identified as a Project as part of the Service Specification between the Fund and Surrey County Council. | 1 | 6 | 27/05/2021 |
| Liability Risk | 19 | Rise in ill health retirements impact employer organisations. | 2 | 2 | 1 | 5 | 2 | 10 | 10 | ↔ | TREAT 1) Engage with actuary re assumptions in contribution rates. | 1 | 5 | 27/05/2021 |
| Liability Risk | 20 | Rise in discretionary ill-health retirements claims adversely affecting self-insurance costs. | 2 | 2 | 1 | 5 | 2 | 10 | 10 | ↔ | TREAT 1) Pension Fund monitors ill health retirement awards which contradict IRMP recommendations. | 1 | 5 | 27/05/2021 |
| Liability Risk | 21 | Price inflation is significantly more than anticipated in the actuarial assumptions: an increase in CPI inflation by 0.1% over the assumed rate will increase the liability valuation by upwards of 1.7%. | 5 | 3 | 2 | 10 | 4 | 40 | 40 | ↔ | TREAT 1) The fund holds investment in index-linked bonds (RPI protection which is higher than CPI) and other real assets to mitigate CPI risk. Moreover, equities will also provide a degree of inflation protection. 2) Officers continue to monitor the increases in CPI inflation on an ongoing basis. | 3 | 30 | 27/05/2021 |
| Liability Risk | 22 | Scheme members live longer than expected leading to higher than expected liabilities. | 5 | 5 | 1 | 11 | 2 | 22 | 22 | ↔ | TOLERATE 1)The scheme's liability is reviewed at each triennial valuation and the actuary's assumptions are challenged as required. 2)The actuary's most recent longevity analysis has shown that the rate of increase in life expectancy is slowing down. | 2 | 22 | 27/05/2021 |
| Liability Risk | 23 | Employee pay increases are significantly more than anticipated for employers within the Fund. | 4 | 4 | 2 | 10 | 2 | 20 | 20 | ↔ | TOLERATE 1) Fund employers continue to monitor own experience. 2) Assumptions made on pay and price inflation (for the purposes of IAS19/FRS102 and actuarial valuations) should be long term assumptions. Any employer specific assumptions above the actuary's long term assumption would lead to further review. 3) Employers to made aware of generic impact that salary increases can have upon the final salary linked elements of LGPS benefits (accrued benefits before 1 April 2014). | 2 | 20 | 27/05/2021 |
| Liability Risk | 24 | Ill health costs may exceed "budget" allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers. | 4 | 2 | 1 | 7 | 2 | 14 | 14 | ↔ | TOLERATE 1) Review "budgets" at each triennial valuation and challenge actuary as required. 2)Charge capital cost of ill health retirements to admitted bodies at the time of occurring. 3)Occupational health services provided by the Council and other large employers to address potential ill health issues early. | 2 | 14 | 27/05/2021 |
| Liability Risk | 25 | Impact of increases to employer contributions following the actuarial valuation | 5 | 5 | 3 | 13 | 2 | 26 | 26 | ↔ | TREAT 1) Officers to consult and engage with employer organisations in conjunction with the actuary. 2) Actuary will assist where appropriate with stabilisation and phasing in processes. | 1 | 13 | 27/05/2021 |
| Liability Risk | 26 | Changes to LGPS Regulations | 3 | 2 | 1 | 6 | 3 | 18 | 18 | ↔ | TREAT 1) Fundamental change to LGPS Regulations implemented from 1 April 2014 (change from final salary to CARE scheme). 2) Future impacts on employer contributions and cash flows will considered during the 2019 actuarial valuation process. 3) Fund will respond to several ongoing consultation processes. 4) Impact of LGPS (Management of Funds) Regulations 2016 to be monitored. Impact of Regulations 8 (compulsory pooling) to be monitored. | 2 | 12 | 27/05/2021 |
| Liability Risk | 27 | Changes to LGPS Scheme moving from Defined Benefit to Defined Contribution | 5 | 3 | 2 | 10 | 1 | 10 | 10 | ↔ | TOLERATE 1) Political power required to effect the change. | 1 | 10 | 27/05/2021 |
| Liability Risk | 28 | Transfers out of the scheme increase significantly due to members transferring their pensions to DC funds to access cash through new pension freedoms. | 4 | 4 | 2 | 10 | 1 | 10 | 10 | ↔ | TOLERATE 1) Monitor numbers and values of transfers out being processed. If required, commission transfer value report from Fund Actuary for application to Treasury for reduction in transfer values. 2) Evidence has shown that members have not been transferring out of the CARE scheme at the previously anticipated rates. | 1 | 10 | 27/05/2021 |
| Liability Risk | 29 | Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing. | 5 | 3 | 1 | 9 | 2 | 18 | 18 | ↔ | TREAT 1) Review maturity of scheme at each triennial valuation. 2)Deficit contributions specified as lump sums, rather than percentage of payroll to maintain monetary value of contributions. 3) Cashflow position monitored monthly. | 1 | 9 | 27/05/2021 |
| Liability Risk | 30 | The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities. | 4 | 2 | 1 | 7 | 2 | 14 | 14 | ↔ | TREAT 1) Review at each triennial valuation and challenge actuary as required. 2) Growth assets and inflation linked assets in the portfolio should rise as inflation rises. | 1 | 7 | 27/05/2021 |

| | | | | | | | | | | | | | | |
|-------------------------|----|---|---|---|---|----|---|----|----|---|---|---|----|------------|
| Liability Risk | 31 | Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration. | 4 | 2 | 1 | 7 | 2 | 14 | 14 | ↔ | TREAT 1) Maintain links with central government and national bodies to keep abreast of national issues. 2) Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood. | 1 | 7 | 27/05/2021 |
| Employer Risk | 32 | Structural changes in an employer's membership or an employer fully/partially closing the scheme. Employer bodies transferring out of the pension fund or employer bodies closing to new membership. An employer ceases to exist with insufficient funding or adequacy of bond placement. | 5 | 3 | 1 | 9 | 3 | 27 | 27 | ↔ | TREAT 1) Administering Authority actively monitors prospective changes in membership. 2) Maintain knowledge of employer future plans. 3) Contributions rates and deficit recovery periods set to reflect the strength of the employer covenant. 4) Periodic reviews of the covenant strength of employers are undertaken and indemnity applied where appropriate. 5) Risk categorisation of employers planned to be part of 2019 actuarial valuation. 6) Monitoring of gilt yields for assessment of pensions deficit on a termination basis. | 2 | 18 | 27/05/2021 |
| Employer Risk | 33 | Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others. | 5 | 3 | 3 | 11 | 2 | 22 | 22 | ↔ | TREAT 1) Transferee admission bodies required to have bonds in place at time of signing the admission agreement. 2) Regular monitoring of employers and follow up of expiring bonds. | 1 | 11 | 27/05/2021 |
| Resource and Skill Risk | 34 | Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints. Service may deteriorate due to the contract ending at the end of 2021. | 1 | 3 | 3 | 7 | 4 | 28 | 28 | ↔ | TOLERATE 1) Officers to continue monitor the ongoing staffing changes at Surrey CC. 2) Ongoing monitoring of contract and KPIs | 3 | 21 | 27/05/2021 |
| Resource and Skill Risk | 35 | Poor reconciliation process leads to incorrect contributions. | 2 | 1 | 1 | 4 | 3 | 12 | 12 | ↔ | TREAT 1) Reconciliation is undertaken by the pension fund team. Officers to ensure that reconciliation process notes are understood and applied correctly the team. 2) Ensure that the Pension Fund team is adequately resourced to manage the reconciliation process. | 2 | 8 | 27/05/2021 |
| Resource and Skill Risk | 36 | Failure to detect material errors in bank reconciliation process. | 2 | 2 | 2 | 6 | 2 | 12 | 12 | ↔ | TREAT 1) Pensions team to continue to work closely with staff at HCC to smooth over any teething problems relating to the newly agreed reconciliation process. | 1 | 6 | 27/05/2021 |
| Resource and Skill Risk | 37 | Failure to pay pension benefits accurately leading to under or over payments. | 2 | 2 | 2 | 6 | 2 | 12 | 12 | ↔ | TREAT 1) There are occasional circumstances where under/over payments are identified. Where underpayments occur, arrears are paid as soon as possible, usually in the next monthly pension payment. Where an overpayment occurs, the member is contacted, and the pension corrected in the next month. Repayment is requested and sometimes this is collected over several months. | 1 | 6 | 27/05/2021 |
| Resource and Skill Risk | 38 | Unstructured training leads to under developed workforce resulting in inefficiency. | 2 | 2 | 2 | 6 | 2 | 12 | 12 | ↔ | TREAT 1) Implementation and monitoring of a Staff Training and Competency Plan as part of the Service Specification between the Fund and Surrey County Council. 2) Officers regularly attend training seminars and conferences 3) Designated officer in place to record and organise training sessions for officers and members | 1 | 6 | 27/05/2021 |
| Resource and Skill Risk | 39 | Lack of guidance and process notes leads to inefficiency and errors. | 2 | 2 | 1 | 5 | 2 | 10 | 10 | ↔ | TREAT 1) The team will continue to ensure process notes are updated and circulated amongst colleagues in the Pension Fund and Administration teams. | 1 | 5 | 27/05/2021 |
| Resource and Skill Risk | 40 | Lack of productivity leads to impaired performance. | 2 | 2 | 1 | 5 | 2 | 10 | 10 | ↔ | TREAT 1) Regular appraisals with focused objectives for pension fund and admin staff. | 1 | 5 | 27/05/2021 |
| Resource and Skill Risk | 41 | Failure to take difficult decisions inhibits effective Fund management | 5 | 3 | 4 | 12 | 2 | 24 | 24 | ↔ | TREAT 1) Officers ensure that governance process encourages decision making on objective empirical evidence rather than emotion. 2) Officers ensure that the basis of decision making is grounded in the Investment Strategy Statement (ISS), Funding Strategy Statement (FSS), Governance Policy statement and Committee Terms of Reference and that appropriate expert advice is sought. | 1 | 12 | 27/05/2021 |
| Resource and Skill Risk | 42 | Failure by the audit committee to perform its governance, assurance and risk management duties | 3 | 2 | 1 | 6 | 3 | 18 | 18 | ↔ | TREAT 1) Audit Committee performs a statutory requirement for the Pension Fund with the Pension Sub-Committee being a sub-committee of the audit committee. 2) Audit Committee meets regularly where governance issues are regularly tabled. | 2 | 12 | 27/05/2021 |

| | | | | | | | | | | | | | | |
|---------------------------------------|----|---|---|---|---|----|---|----|----|---|---|---|----|------------|
| Resource and Skill Risk | 43 | Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves. | 4 | 3 | 3 | 10 | 2 | 20 | 20 | ↔ | TREAT 1) Person specifications are used at recruitment to appoint officers with relevant skills and experience. 2) Training plans are in place for all officers as part of the performance appraisal arrangements. 3) Shared service nature of the pensions team provides resilience and sharing of knowledge. 4) Officers maintain their CPD by attending training events and conferences. | 1 | 10 | 27/05/2021 |
| Resource and Skill Risk | 44 | Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions. | 4 | 3 | 2 | 9 | 2 | 18 | 18 | ↔ | TREAT 1) External professional advice is sought where required. Knowledge and skills policy in place (subject to Committee Approval) | 1 | 9 | 27/05/2021 |
| Resource and Skill Risk | 45 | Loss of 'Elective Professional Status' with any Fund managers and counterparties resulting in reclassification of fund from professional to retail client status impacting Fund's investment options and ongoing engagement with the Fund managers. | 4 | 2 | 2 | 8 | 2 | 16 | 16 | ↔ | TREAT 1) Keep quantitative and qualitative requirements under review to ensure that they continue to meet the requirements. 2) Training programme and log are in place to ensure knowledge and understanding is kept up to date. 3) Existing and new Officer appointments subject to requirements for professional qualifications and CPD. | 1 | 8 | 27/05/2021 |
| Resource and Skill Risk | 46 | Change in membership of Pension Fund Committee leads to dilution of member knowledge and understanding | 2 | 2 | 1 | 5 | 2 | 10 | 10 | ↔ | TREAT 1) Succession planning processes are in place. 2) Ongoing training of Pension Fund Committee members. 3) Pension Fund Committee new member induction programme. 4) Training to be based on the requirements of CIPFA Knowledge and Skills Framework under designated officer. | 1 | 5 | 27/05/2021 |
| Administrative and Communicative Risk | 47 | The Pension Fund is recruiting for a brand new retained HR and Pensions administration team, with finding candidates for all positions likely to be a challenge. At the same time the Pension Fund is transferring its Pension Fund Administration service from Surrey County Council, to the Local Pensions Partnership. | 4 | 3 | 3 | 10 | 5 | 50 | 50 | ↔ | TREAT 1) A task force of key stakeholders has been assembled. Officers to feed into the internal processes necessary for the setup of an effective retained pensions team 2) Recruitment is underway for the the retained team 3) Officers to receive a handover pack from the departing RBKC retained pensions team. 4) Members have chosen the new service provider as the London Pensions Partnership, with a project team established to manage the transition. | 3 | 30 | 27/05/2021 |
| Administrative and Communicative Risk | 48 | COVID-19 affecting the day to day functions of the Pensions Administration services including customer telephony service, payment of pensions, retirements, death benefits, transfers and refunds. | 2 | 4 | 3 | 9 | 3 | 27 | 27 | ↔ | TOLERATE 1) The Pensions Administration team have shifted to working from home 2) The administrators have prioritised death benefits, retirements including ill health and refunds. If there is any spare capacity the administrators will prioritise transfers and divorce cases. 3) Revision of processes to enable electronic signatures and configure the telephone helpdesk system to work from home. | 3 | 27 | 27/05/2021 |
| Administrative and Communicative Risk | 49 | Failure of fund manager or other service provider without notice resulting in a period of time without the service being provided or an alternative needing to be quickly identified and put in place. | 5 | 2 | 2 | 9 | 2 | 18 | 18 | ↔ | TREAT 1) Contract monitoring in place with all providers. 2) Procurement team send alerts whenever credit scoring for any provider changes for follow up action. 3). Officers to take advice from the investment advisor on fund manager ratings and monitoring investment | 2 | 18 | 27/05/2021 |
| Administrative and Communicative Risk | 50 | Concentration of knowledge in a small number of officers and risk of departure of key staff. | 2 | 2 | 3 | 7 | 3 | 21 | 21 | ↔ | TREAT 1) Process notes are in place. 2) Development of team members and succession planning improvements to be implemented. 3) Officers and members of the Pension Fund Committee will be mindful of the proposed CIPFA Knowledge and Skills Framework when setting objectives and establishing training needs. | 2 | 14 | 27/05/2021 |
| Administrative and Communicative Risk | 51 | Incorrect data due to employer error, user error or historic error leads to service disruption, inefficiency and conservative actuarial assumptions. | 4 | 4 | 3 | 11 | 2 | 22 | 22 | ↔ | TREAT 1) Update and enforce admin strategy to assure employer reporting compliance. 2) Implementation and monitoring of a Data Improvement Plan as part of the Service Specification between the Fund and Orbis. TOLERATE 1) Northern Trust provides 3rd party validation of performance and valuation data. Admin team and members can interrogate data to ensure accuracy. | 1 | 11 | 27/05/2021 |
| Administrative and Communicative Risk | 52 | Failure of financial system leading to lump sum payments to scheme members and supplier payments not being made and Fund accounting not being possible. | 1 | 3 | 4 | 8 | 2 | 16 | 16 | ↔ | TREAT 1) Contract in place with HCC to provide service, enabling smooth processing of supplier payments. 2) Process in place for Surrey CC to generate lump sum payments to members as they are due. 3) Officers undertaking additional testing and reconciliation work to verify accounting transactions. | 1 | 8 | 27/05/2021 |

| | | | | | | | | | | | | | | |
|---------------------------------------|----|--|---|---|---|----|---|----|----|---|--|---|----|------------|
| Administrative and Communicative Risk | 53 | Inability to respond to a significant event leads to prolonged service disruption and damage to reputation. | 1 | 2 | 5 | 8 | 2 | 16 | 16 | ↔ | TREAT 1) Disaster recovery plan in place as part of the service specification between the Fund and Surrey County Council 2) Ensure system security and data security is in place 3) Business continuity plans regularly reviewed, communicated and tested 4) Internal control mechanisms ensure safe custody and security of LGPS assets. 5) Gain assurance from the Fund's custodian, Northern Trust, regarding their cyber security compliance. | 1 | 8 | 27/05/2021 |
| Administrative and Communicative Risk | 54 | Failure of pension payroll system resulting in pensioners not being paid in a timely manner. | 1 | 2 | 4 | 7 | 2 | 14 | 14 | ↔ | TREAT 1) In the event of a pension payroll failure, we would consider submitting the previous months BACS file to pay pensioners a second time if a file could not be recovered by the pension administrators and our software suppliers. | 1 | 7 | 27/05/2021 |
| Administrative and Communicative Risk | 55 | Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment. | 1 | 1 | 1 | 3 | 3 | 9 | 9 | ↔ | TREAT 1) Pension administration records are stored on the Surrey CC servers who have a disaster recovery system in place and records should be restored within 24 hours of any issue. 2) All files are backed up daily. | 2 | 6 | 27/05/2021 |
| Administrative and Communicative Risk | 56 | Failure to hold personal data securely in breach of General Data Protection Regulation (GDPR) legislation. | 3 | 3 | 5 | 11 | 2 | 22 | 22 | ↔ | TREAT 1) Data encryption technology is in place which allow the secure transmission of data to external service providers. 2) LBHF IT data security policy adhered to. 3) Implementation of GDPR | 1 | 11 | 27/05/2021 |
| Administrative and Communicative Risk | 57 | Failure to comply with recommendations from the Local Pension Board, resulting in the matter being escalated to the scheme advisory board and/or the pensions regulator | 1 | 3 | 5 | 9 | 2 | 18 | 18 | ↔ | TREAT 1) Ensure that a cooperative, effective and transparent dialogue exists between the Pension Fund Committee and Local Pension Board. | 1 | 9 | 27/05/2021 |
| Reputational Risk | 58 | Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss. | 3 | 2 | 5 | 10 | 2 | 20 | 20 | ↔ | TREAT 1) Third parties regulated by the FCA and separation of duties and independent reconciliation processes are in place. 2) Review of third party internal control reports. 3) Regular reconciliations of pensions payments undertaken by Pension Finance Team. 4) Periodic internal audits of Pensions Finance and HR Teams. | 1 | 10 | 27/05/2021 |
| Reputational Risk | 59 | Financial loss of cash investments from fraudulent activity | 3 | 3 | 5 | 11 | 2 | 22 | 22 | ↔ | TREAT 1) Policies and procedures are in place which are regularly reviewed to ensure risk of investment loss is minimised. 2) Strong governance arrangements and internal control are in place in respect of the Pension Fund. Internal audit assist in the implementation of strong internal controls. 3) Fund Managers have to provide annual SSAE16 and ISAE3402 or similar documentation (statement of internal controls). | 1 | 11 | 27/05/2021 |
| Reputational Risk | 60 | Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage. | 5 | 2 | 4 | 11 | 2 | 22 | 22 | ↔ | TREAT 1) Officers maintain knowledge of legal framework for routine decisions. 2) Eversheds retained for consultation on non-routine matters. | 1 | 11 | 27/05/2021 |
| Reputational Risk | 61 | Inaccurate information in public domain leads to damage to reputation and loss of confidence | 1 | 1 | 3 | 5 | 3 | 15 | 15 | ↔ | TREAT 1) Ensure that all requests for information (Freedom of Information, member and public questions at Council, etc) are managed appropriately and that Part 2 Exempt items remain so. 2) Maintain constructive relationships with employer bodies to ensure that news is well managed. | 2 | 10 | 27/05/2021 |
| Reputational Risk | 62 | Procurement processes may be challenged if seen to be non-compliant with OJEU rules. Poor specifications lead to dispute. Unsuccessful fund managers may seek compensation following non compliant process | 2 | 2 | 3 | 7 | 2 | 14 | 14 | ↔ | TREAT 1) Ensure that assessment criteria remains robust and that full feedback is given at all stages of the procurement process. | 1 | 7 | 27/05/2021 |
| Regulatory and Compliance Risk | 63 | Non-compliance with regulation changes relating to the pension scheme or data protection leads to fines, penalties and damage to reputation. | 3 | 3 | 2 | 8 | 2 | 16 | 16 | ↔ | TREAT 1) The Fund has generally good internal controls regarding the management of the Fund. These controls are assessed on an annual basis by internal and external audit as well as council officers. 2) Through strong governance arrangements and the active reporting of issues, the Fund will seek to report all breaches as soon as they occur in order to allow mitigating actions to take place to limit the impact of any breaches. | 1 | 8 | 27/05/2021 |

| | | | | | | | | | | | | | | |
|--------------------------------|----|---|---|---|---|----|---|----|----|---|--|---|----|------------|
| Regulatory and Compliance Risk | 64 | Failure to comply with legislative requirements e.g. ISS, FSS, Governance Policy, Freedom of Information requests | 3 | 3 | 4 | 10 | 2 | 20 | 20 | ↔ | TREAT 1) Publication of all documents on external website. 2) Officers expected to comply with ISS and investment manager agreements. 3) Local Pension Board is an independent scrutiny and assistance function. 4) Annual audit reviews. | 1 | 10 | 27/05/2021 |
|--------------------------------|----|---|---|---|---|----|---|----|----|---|--|---|----|------------|

Agenda Item 9

London Borough of Hammersmith & Fulham

Report to: Pensions Board

Date: 9 June 2021

Subject: Pension Fund Business Plan

Report of: Phil Triggs, Director of Treasury and Pensions

Matt Hopson, Strategic Investment Manager

Summary

The purpose of this report is to present the 2021/22 business plan, which presents strategic medium-term objectives and a budget forecast for 2021/22.

Recommendations

The Pensions Sub-Committee commented on and approved the attached business plan, shown at Appendix 1. The Local Pension Board is recommended to note to plan.

Wards Affected: None

LBHF Priorities

| Our Priorities | Summary of how this report aligns to the LBHF priorities |
|--|---|
| <ul style="list-style-type: none">Being ruthlessly financially efficient | Ensuring good governance for the Pension Fund should ultimately lead to better financial performance in the long run for the Council and the council tax payer. |

Financial Impact

None

Legal Implications

None

Contact Officer(s):

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Name: Matt Hopson
Position: Strategic Investment Manager
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Email: mhopson@westminster.gov.uk

Name: Phil Triggs
Position: Director of Treasury and Pensions
Telephone: 020 7641 4136
Email: ptriggs@westminster.gov.uk

Verified by Phil Triggs

Background Papers Used in Preparing This Report

None

1. Background

- 1.1 The Myners Report to HM Treasury, compiled by Lord Myners, and published in March 2001, recommended that local authority pension funds should approve an annual business plan in respect of the objectives required for the next one to three years.
- 1.2 This is the first LBHF pension fund business plan presented to the Pensions Sub-Committee and sets out the short-term objectives and a financial forecast for 2021/22. It is attached at Appendix 1.
- 1.3 An outturn report will be presented to the Pensions Sub-Committee to update members on progress and present outcomes with an outturn cost summary.

List of Appendices:

Appendix 1: LBHF PF Business Plan

Annex 1: Investment Consultant Review

London Borough of Hammersmith and Fulham Pension Fund

Business Plan 2021/22

Introduction

The Myners Report to HM Treasury, published in March 2001, recommends that local authority pension funds should approve an annual business plan in respect of the objectives required for the next one to three years.

Estimates are based on current investment allocations and expected expenses based on historic information and available forecasts. Investment allocations are subject to change, impacting management expenses.

Strategic medium-term objectives are grouped under the following headings:

- Administration and communication;
- Actuarial / funding;
- Pensions Sub-Committee;
- Local Pension Board;
- Risk management.

In order to meet objectives, a timetable of performance indicators has been agreed and an outturn report will be presented to the Pensions Sub-Committee to update members on progress.

2021/22 Forecast Expenditure

| | Company Name (If Applicable) | 2019/20 | 2020/21 | 2021/22 |
|--|------------------------------|--------------|--------------|--------------|
| | | Actual | Estimate* | Estimate |
| | | £000 | £000 | £'000 |
| Administration | | | | |
| Employees | | - | 40 | 260 |
| Supplies and services | | 374 | 387 | 320 |
| Other costs | | 3 | 5 | 5 |
| | | 377 | 432 | 585 |
| Governance and oversight | | | | |
| Employees | | 446 | 463 | 170 |
| Investment advisory services | Deloitte | 68 | 100 | 125 |
| Governance and compliance | | 134 | 160 | 160 |
| External audit | Grant Thornton | 25 | 27 | 30 |
| Actuarial fees | Barnett Waddingham | 79 | 95 | 95 |
| Training | | - | - | 10 |
| | | 752 | 845 | 590 |
| Investment Management | | | | |
| Management, Performance and Transaction fees | | | | |
| | Legal & General | 99 | 210 | 205 |
| | LCIV Absolute Return | 1,048 | 1,500 | 1,185 |
| | LCIV Global Bond Fund | 211 | 245 | 265 |
| | LCIV Global Sustain Fund | 0 | 520 | 865 |
| | Partners Group | 1,137 | 1,175 | 1,175 |
| | ASI Long Lease | 259 | 260 | 265 |
| | ASI MSPC | 0 | 180 | 180 |
| | Oak Hill Advisors | 622 | 485 | 600 |
| | Aviva | 166 | 175 | 180 |
| | Northern Trust | 28 | 35 | 35 |
| | Other | 1,165 | 340 | 570 |
| | | 4,735 | 5,125 | 5,523 |
| Total | | 5,864 | 6,402 | 6,698 |

* Estimate is currently based on charges made as at PD 9 and approximate adjustments made

Administration and Communication

The LBHF Fund is governed by the Public Service Pensions Act 2013 and administered in accordance with secondary legislation.

The administration of the Fund has been undertaken by Surrey County Council since 2015. It was decided to terminate the delegation agreement from 31 January 2022, with services being provided by the Local Pension Partnership from 31 January 2022 onwards.

Objectives

1. Ensure the scheme is run in accordance with agreed service standards and in compliance with Regulations;
2. Deliver a high quality, cost effective pension administration service;
3. Collaborative working with outsourced parties;
4. Successful transition to in-house team following exit from Surrey County Council.

| | Actions | Timeline | Responsibility | Overseen by |
|---|--|-----------------|-----------------------|--------------------|
| A | Annual review and publication of the Pensions Administration strategy | 31/3/22 | Eleanor Dennis | Dawn Aunger |
| B | Compliance and reporting of key service performance indicators (KPIs) | 31/3/21 | Eleanor Dennis | Dawn Aunger |
| C | Review and publication of communication policy | 31/3/22 | Eleanor Dennis | Dawn Aunger |
| D | Annual report and accounts published on website | 1/12/21 | Patrick Rowe | Matt Hopson |
| E | Freedom of information (FOI) requests responded to within statutory deadline | Ongoing | Patrick Rowe | Matt Hopson |

Actuarial / Funding

The Fund is responsible for commissioning triennial actuarial valuations of the Pension Fund regarding the funding status and level of employers' contributions necessary to fully fund the Pension Fund. Actuarial services are currently subject to tender and will be awarded starting 1 April 2021 for five years.

Objectives:

1. Monitor the funding level of the Scheme, including a formal actuarial valuation every three years (next valuation as at 31 March 2022);
2. Monitor and reconcile contribution payments to the Scheme by the employers and scheme members;
3. Understand legislative changes which will impact on funding.

| | Actions | Timeline | Responsibility | Overseen by |
|---|--|----------------------------------|-------------------------|------------------------|
| A | Provide employers with IAS19/FRS102 funding statements in line with employer year end. | March 21 July 21 August 21 | Patrick Rowe | Matt Hopson |
| B | Funding level to be reported to Pensions Sub-Committee quarterly. | Quarterly | Patrick Rowe | Matt Hopson |
| C | Monitor and reconcile employer contributions remittances with the pension fund bank statement. | Monthly | Alastair Paton | Matt Hopson |
| D | Member training to cover actuarial funding issues. | Ongoing | Mathew Dawson | Phil Triggs |
| E | Funding strategy reviewed and updated | March 21 | Matt Hopson/Phil Triggs | Pensions Sub-Committee |

Pensions Sub-Committee

Investment allocation decisions are delegated to the Pensions Sub-Committee who oversees the management of the Fund’s assets. The Pensions Sub-Committee appoints fund managers and advisors to assist in reviewing the overall strategic asset allocation, ensuring its suitability and the diversification of assets.

Objectives

1. Members should be equipped with the correct training and experience to make investment decisions;
2. Members should be provided with timely information on investment performance against agreed benchmarks;
3. Meetings should be run efficiently to ensure decisions are made clearly and effectively;
4. Suitability and diversification of the overall investment strategy and strategic asset allocation of the pension fund should be ensured, reporting to Council as necessary.

| | Actions | Timeline | Responsibility | Overseen by |
|---|---|-----------------|-----------------------|------------------------|
| A | Train and develop all members to enable them to perform their duties effectively. | Ongoing | Mathew Dawson | Phil Triggs |
| B | Committee papers to be issued to members five working days prior to meeting, and minutes to be circulated in a timely manner. | Quarterly | David Abbot | Rhian Davies |
| C | Committee meetings should include the investment advisor as appropriate | Ongoing | Patrick Rowe | Matt Hopson |
| D | Manager monitoring reports to be presented to Pensions Sub-Committee members. | Quarterly | Patrick Rowe | Matt Hopson |
| E | Pensions Sub Committee to receive quarterly investment monitoring reports. | Quarterly | Patrick Rowe | Matt Hopson |
| F | Review and implement asset allocation, rebalancing where necessary. | Quarterly | Phil Triggs | Pensions Sub-Committee |
| G | Review, implement and publish the Investment Strategy Statement. | Annually | Phil Triggs | Pensions Sub-Committee |
| H | Respond to all government consultations and report to the Pensions Sub-Committee as necessary. | As appropriate | Phil Triggs | Pensions Sub-Committee |

Local Pension Board

Under Section 5 of the Public Service Pensions Act 2013 and Regulation 106 of the LGPS Regulations 2013, a Local Pension Board must be established. The Local Pension Board meets three times a year and assists in the governance and administration of the Fund.

Objectives

1. Ensure the Local Pension Board is constituted and functions within the Regulations;
2. Help facilitate the effective operation of the Local Pension Board.

| | Actions | Timeline | Responsibility | Overseen by |
|---|---|-----------------|-----------------------|------------------------|
| A | Provide Local Pension Board members with access to training offered to Pensions Sub-Committee members. | Ongoing | Mathew Dawson | Phil Triggs |
| B | Comply with any requests from the Local Pension Board with regard to any aspect of the Scheme Manager function. | Ongoing | Phil Triggs | Pensions Sub-Committee |
| C | Pass on recommendations made by the Pensions Sub-Committee to the Local Pension Board within a reasonable period of time. | Ongoing | Phil Triggs | Pensions Sub-Committee |

Risk Management

In line with the best practice and the Pension Regulator's (tPR's) Code of Practice, the Pension Fund maintains a risk register to identify and monitor short and long-term risks to the Fund.

Investment assets are managed by external investment managers, with segregated assets held by an independent global custodian.

Objectives

1. Properly record financial transactions and produce an annual report and accounts within six months of the year end.
2. Monitor and report fees against an agreed budget.
3. Assess the risk associated with the management of the Scheme.

| | Actions | Timeline | Responsibility | Overseen by |
|---|---|-----------------|-----------------------|--------------------|
| A | Monitor Pension Fund expenses for the year against the agreed forecast. | March 21 | Patrick Rowe | Matt Hopson |
| B | Produce an Annual Statement of Accounts and achieve an unqualified audit. | Sep 21/22 | Patrick Rowe | Matt Hopson |
| C | Ensure ongoing risk assessments of the management of the Fund. | Ongoing | Patrick Rowe | Matt Hopson |
| D | Review MiFID documentation to ensure the Fund retains its professional investor status. | Ongoing | Patrick Rowe | Matt Hopson |
| E | Obtain independent internal controls assurance reports for investment managers and fund global custodian. | March 21 | Patrick Rowe | Matt Hopson |
| F | Approve the Risk Register | Quarterly | Phil Triggs | Pension Board |

Further Information

As per the requirements of the Competition Markets Authority (CMA), the Pension Fund must establish aims and objectives for its investment consultant. A set of consultant objectives were drawn up for the investment advisor, Deloitte, and approved by the Pensions Sub-Committee in November 2019.

In line with best practice, the performance of the investment consultant against the objectives should be reviewed on an annual basis and the objectives updated at least every three years, or when there has been a material change in the investment approach. Annex 1 details these objectives and assessed performance as at November 2020.

Timetable

| LOCAL PENSION BOARD | |
|----------------------------|-----------------|
| Meeting Date | Report Deadline |
| 9th June 2021 | 31 May 2021 |
| 9th Feb 2022 | 31 Jan 2022 |

| Pensions Sub-Committee | |
|-------------------------------|-----------------|
| Meeting Date | Report Deadline |
| 28th June 2021 | 17 June 2021 |
| 20th Sept 2021 | 9 Sep 2021 |
| 23rd Nov 2021 | 11 Nov 2021 |
| 28th Feb 2022 | 17 Feb 2022 |

Background

As per the requirements of the Competition and Markets Authority (CMA), the Pension Fund must establish aims and objectives for its investment consultant. A set of consultant objectives were drawn up for the Pension Fund investment consultant, Deloitte, and approved by Committee on 26 November 2019.

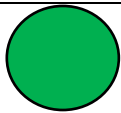
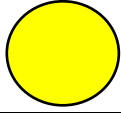
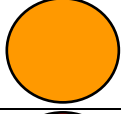
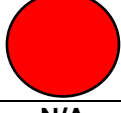
After conducting an extensive review into the pension fund consultancy and fiduciary management industry, the CMA produced a report, detailing several recommendations to improve pension fund governance, with a number of concerns expressed around fees and conflicts of interest.

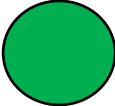
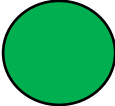
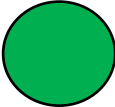
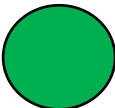
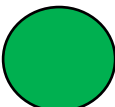
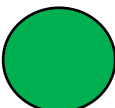
The Pensions Regulator (tPR) welcomed the review by the CMA and produced guidance on setting aims and objectives. The regulator's view is that it is good practice for pension funds, including the LGPS, to be setting aims and objectives for investment consultants and advisors in order to achieve better outcomes and manage areas of underperformance.

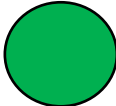
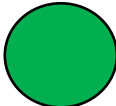
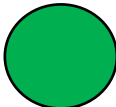
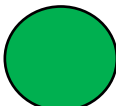
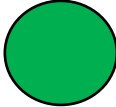
Performance Against Aims and Objectives

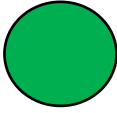
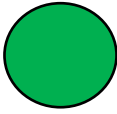
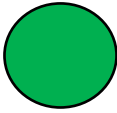
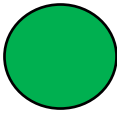
In line with best practice, the performance of the investment consultant against the objectives should be reviewed on an annual basis and the objectives updated at least every 3 years or when there has been a material change in investment approach.

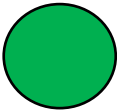
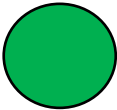
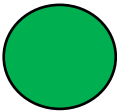
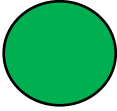
In the tables below are the agreed objectives and aims for the investment consultant, Deloitte, against which the consultant performance has been reviewed. Each objective has been assessed individually and assigned a rating as follows:

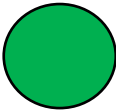
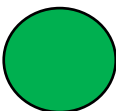
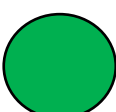
| Performance Rating | Key |
|--------------------|---|
| Excellent |  |
| Good |  |
| Satisfactory |  |
| Unsatisfactory |  |
| Not able to assess | N/A |

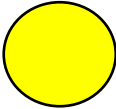
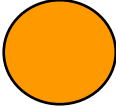
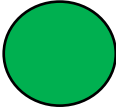
| 1. Assistance in achieving the Fund's objectives | | | |
|---|--|--|--|
| Reference | Objectives | Performance Rating | Comments |
| a) | Any proposed changes in investment strategy or investment managers has a clear rationale linked to the Fund's objectives with specific reference to improving the efficiency of the investment strategy in terms of risk adjusted returns. |  | Review of investment strategy during 2020, and manager selections which reflect the new asset allocation. |
| b) | All advice considers funding implications and the ability of the Fund to meet its long-term objectives. |  | The actuarial valuation taken into consideration when agreeing the revised asset allocation. |
| c) | The investment consultant has an appropriate framework in place to recognise opportunities to reduce risk. |  | The investment consultant has the required due diligence processes in place to reduce risks. |
| d) | The investment consultant has contributed to the Fund's cashflow management process ensuring that the Fund's benefit obligations are met in a cost-efficient manner. |  | The Fund cashflow management is run in-house, however the consultant may suggest appropriate income strategies to match the shortfall in cash. |
| e) | The investment consultant undertakes specific tasks such as the selection of new managers and asset liability studies as commissioned. |  | The consultant has drawn up shortlists and arranged interviews for the manager selections during the year. |
| f) | The investment consultant has complied with prevailing legislation, the constraints imposed by the Investment Strategy Statement, the detailed Investment Management Agreements and the policy agreed with the Committee when considering the investment of the Fund's assets. |  | The investment consultant and the Pension Fund have a contract in place. |

| 2. Governance and Costs | | | |
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| Reference | Objectives | Performance Rating | Comments |
| a) | Assist the Committee to implement the Fund's investments on a more competitive fee basis, through negotiation and periodic benchmarking of fees. |  | The investment consultant produces a quarterly investment report which now includes fees benchmarking. |
| b) | Cost implications, both in terms of investment management expenses and implementation costs, are considered as part of investment strategy advice. |  | These factors were taken into consideration during the 2020 investment strategy review. |
| c) | Where the investment consultant has provided support on implementation activity, including activity required to meet Fund benefits, these transactions have been carried out in a cost-effective manner. | N/A | The fund transitions are undertaken by the in-house investment team. |
| d) | The investment consultant has demonstrated an understanding and appreciation of governance requirements, in particular, the investment consultant has avoided complexity where simpler, more cost-effective solutions may be available. |  | Manager fees taken into consideration during the manager shortlisting and selection process. |
| e) | The investment consultant has ensured that investments are in accordance with the current regulatory and compliance requirements relevant for the LGPS. |  | The investment consultant has the required due diligence processes in place to ensure regulatory and compliance requirements are met. |
| f) | The investment consultant has taken into account the necessity for all investment funds within the portfolio, with few exceptions, to utilise one of the pools. |  | The consultant includes the asset pool products within the manager shortlisting and selection process. |

| 3. Proactivity/Keeping informed | | | |
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| Reference | Objectives | Performance Rating | Comments |
| a) | Advise the Committee on appropriate new investment opportunities. |  | The consultant provides training to the Committee on new asset classes. |
| b) | Recognition of the dynamism of investment markets, recognising opportunities to crystallise gains or emerging risks which require immediate attention. |  | The investment consultant produces a quarterly report, rating the managers and advising if they believe the mandate is no longer rated favourably. |
| c) | The investment consultant has kept the Committee up to date with regulatory developments and additional compliance requirements. | N/A | The Committee is updated by the in-house investment team on regulatory matters. |
| d) | The investment consultant has highlighted areas that the Committee may wish to focus on in the future. |  | The investment consultant suggests asset classes which the Committee may wish to explore further. |
| e) | The investment consultant should be generally available for consultation on fund investment matters. |  | The consultant advises on all investment matters as required by the Pension Fund Officers and Committee. |

| 4. Monitoring | | | |
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| Reference | Objectives | Performance Rating | Comments |
| a) | The investment consultant provides insightful monitoring focused on the reasoning behind performance. |  | The investment consultant produces a quarterly report, providing narrative on investment manager performance. |
| b) | The Committee has been kept abreast of investment market developments and their implications for the Fund's investment strategy. |  | The consultant meets with Committee members quarterly and advises of market developments. |
| c) | Monitoring is integrated with funding and risk. |  | The risks within each mandate are monitored on an ongoing basis and the funding level is taken into consideration. |
| d) | Particular focus on the continued merits of active management. The investment consultant considers the value added by active management on a net of fees basis. |  | The consultant provides a quarterly report which details asset manager performance net of fees. |

| 5. Delivery | | | |
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| Reference | Objectives | Performance Rating | Comments |
| a) | The investment consultant has formed a strong working relationship with the Committee, Council Officers and other key stakeholders. |  | There is a good working relationship between the investment consultant and Officers/Committee members. |
| b) | Reports and educational material are pitched at the right level, given the Committee's understanding. |  | The reports and training matters are clear, easily understandable and concise to meet the needs of the Committee. |
| c) | Provides training/explanation which aids understanding and improves the Committee's governance. |  | Training provided by the consultant to meet any needs of the Committee. |

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| d) | Meeting papers are provided in a timely fashion, with all required detail and accuracy. |  | Papers are usually received by the Pension Fund Officers sufficiently in advance of the Committee meetings. On occasion some reports may require slight revisions to include more detail. |
| e) | The investment consultant works within agreed budgets and is transparent with regard to advisory costs, itemising additional work with fees in advance. |  | The consultant sends regular invoices with an itemised breakdown. However, cost of works is not always clear until after the invoice has been delivered. |
| f) | The investment consultant works collaboratively with the scheme's actuary and other advisors or third parties including the global custodian. |  | The consultant works with the custodian to calculate the quarterly fund performance and liaises with the actuary on the funding level. |

As shown in the performance review above the consultant has performed well over the past year, meeting the majority of the aims and objectives to an excellent standard. The Pension Fund remains pleased with the work produced by the consultant and aims to continue building on the good working relationship that has already been established.