

Pension Fund Committee Minutes



Tuesday 15 November 2022

PRESENT

Committee members: Councillors Ross Melton (Chair), Florian Chevoppe-Verdier, Laura Janes and Adam Peter Lang

Co-opted members: Michael Adam and Iain Cassidy

Officers:

Phil Triggs (Director of Treasury and Pensions)
Eleanor Dennis (Head of Pensions)
Patrick Rowe (Pension Fund Manager)
Debbie Yau (Committee Coordinator)

Advisers:

Kevin Humpherson (Deloitte)
Jonny Moore (Deloitte)
Marian George (Independent Advisor)

Guest:

Steven Scott, FFA (Fund Actuary, Hymans Robertson LLP)

1. APOLOGIES FOR ABSENCE

An apology for absence was received from Councillor Adrian Pascu-Tulbure.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. MINUTES OF THE PREVIOUS MEETINGS

Councillor Florian Chevoppe-Verdier referred to the matter arising from the meeting on 7 September 2022 about the governance of the London CIV and how members had been appointed.

ACTION: Phil Triggs

An outstanding action was raised by Councillor Florian Chevoppe-Verdier's enquiry raised at the meeting on 6 October about the telephone helpdesk charge for members' making calls to LPPA, Eleanor Dennis (Head of Pensions) relayed the response of Mr John Crowhurst, Commercial

Director of LPPA to Committee members and confirmed this had been sent in an email dated 7 October 2022 which were recapped as follows:

“Our Helpdesk telephone no. is an ‘030’ which is for ‘Not-for-profit organisations, charities and public bodies’ (see the [government call charges website](#))

Calls from landlines cost up to 10p per minute (approximate) but are included free up to the maximum of your landline provider’s minutes allowance. Calls from mobiles cost 3p to 40p per minute (approximate) but are included free up to the maximum of your mobile provider’s minutes allowance.”

RESOLVED

The minutes of the meeting held on 6 October 2022 were approved as accurate records of the meeting.

Change of agenda order

The Chair proposed, and it was unanimously agreed, to bring Item 10 forward on the agenda.

4. TRIENNIAL VALUATION UPDATE

Phil Triggs (Director of Treasury and Pensions) introduced the report which outlined the initial results of the 2022 triennial actuarial valuation process for the London Borough of Hammersmith and Fulham (LBHF) Pension Fund. He said that in the period from 31 March 2019 to 31 March 2022, the Pension Fund had increased its overall funding level from 97% to 105%, the main drivers of which were the significant investment returns over a very well diversified portfolio.

With reference to the initial results of the LBHF Pension Fund actuarial valuation at 31 March 2022 (Appendix 1, page 164), Steven Scott (Fund Actuary, Hymans Robertson LLP) highlighted the following:

- Major changes to the financial and demographic assumptions which included a slight reduction in the discount rate and an increase in pensioners’ longevity;
- Changes since the last valuation, in particular the actual vs expected investment returns of 30.4% vs 15.8%, and future expectations of increases in inflation (2.7% having had regard to the one year CPI spike) and in salary increase (3.7%);

In reply to Councillor Adam Peter Lang’s concern about the rate of inflation, Steven Scott noted that the 10% CPI inflation level as of September 2022 and the expected 5% in the next year would be reflected in the next triennial valuation at 31 March 2025.

Responding to Councillor Laura Janes’ question on the frequency of reviewing the valuation and its assumptions during a cycle, Steven Scott advised that it never happened in the past during the 3-year cycle, given it

was a long-term pension scheme involving paid benefits for the next 100 years or so. That said, he noted that some private sector schemes or some funds in the US might carry out a valuation more frequently partly due to challenge from the unions or to address fund members' concern over the value of the liabilities. He agreed with Councillor Janes' view that it was costly and time-consuming to do an interim valuation within the 3-year period.

Councillor Florian Chevoppe-Verdier expressed concern about the state pension age as more people were choosing to work after the retirement age. Steven Scott noted previously there was an expectation that the state pension age would increase in line with the rising life expectancy whereby the benefits would be adjusted under the cost cap mechanism. However, there was less of an appetite for increase in state pension age over the last three years.

Councillor Lang relayed scheme members' concern about the decreasing asset values of the Fund over the past six weeks. In response, Steven Scott noted that the LBHF Pension Fund was a defined benefit (DB) scheme under which members were statutorily entitled to benefits linked to their salary earned over the entire period of services. He said that the letter issued to scheme members was to inform them about the fluctuations in the fund's asset value which should have no impact on members' entitled benefits.

Kevin Humpherson (Deloitte) noted that the LBHF Pension Fund did not hold any leveraged government bonds. Marian George (Independent Advisor) observed that according to Deloitte's Investment Performance Report, its values of asset in last September was more or less the same as that in June 2022.

RESOLVED

The Committee noted the initial 2022 Triennial Valuation.

5. PENSION ADMINISTRATION KEY PERFORMANCE INDICATORS

Eleanor Dennis (Head of Pensions) introduced the report which set out a summary of performance of the Local Pension Partnership Administration (LPPA) in providing a pension administration service to the LBHF Pension Fund for Quarter 2 (Q2), i.e. for the period of July 2022 – September 2022.

On the casework performance against Service Level Agreement (SLA), Eleanor Dennis clarified that the performance standard for processing death cases within the SLA target of 5 working days was actually 81% instead of 59.2% as some cases had been incorrectly recorded as late. Eleanor Dennis noted that after LPPA completed migrating their clients onto the new pension administration platform by January 2023, its system would be able to take into account the granular details she had just provided. She agreed with the Chair that upon a smooth migration, the LPPA might reflect the casework performance more closely at the next Quarterly Administration Report going forward.

As regards the performance standards for processing transfers-in and refunds raised by Councillor Florian Chevoppe-Verdier, Eleanor Dennis noted that despite the performance standard for transfers-in went down slightly, the

number of cases processed rose. She explained that the less than satisfactory performance for both caseworks was due to the fact that staff were being re-deployed to work with the new platform project and hence less people were doing the job.

RESOLVED

The Committee noted the contents of the report.

6. PENSION ADMINISTRATION UPDATE

Eleanor Dennis (Head of Pensions) introduced the report which provided a summary of activity in key areas of pension administration for the LBHF Pension Fund. She noted that those annual benefit statements (ABSs) that had not been able to be sent out on 31 August 2022 were due to no information from the employers and upon their advice, the ABSs would be sent out on 30 November 2022, and any further outstanding in January 2023.

Councillor Adam Peter Lang was concerned about the time and again delay in sending out the ABSs. Eleanor Dennis explained that as not all employers would send the data to allow LPPA to issue the ABSs to scheme members on time, those members affected had received a letter of explanation on 31 August that they would be issued the ABSs in November should the respective employers have supplied the required information. She undertook to provide the number of members affected after the meeting.

ACTION: Eleanor Dennis

Eleanor Dennis remarked that due to its tight timetable of migrating to the new platform by next January, the LPPA had fallen short in their service delivery to the LBHF Pension Fund in the last 10 months. Highlighting that she and her staff did challenge the LPPA in delaying the issuance of the ABSs again, she noted that as a remedy, the LPPA undertook to issue another round of letters in January 2023. While the Pension Administration would deploy internal resources to continue working with the employers concerned, it was proposed to revise the Pension Administration Strategy (item 6 below) such that scheme employers would be expected to comply with any reasonable data requests from the relevant parties.

Responding to Councillor Laura Janes on ways that members could give further support to the Pension Administration, Eleanor Dennis considered it would be helpful to bring LPPA to these Committee meetings and make them aware of Councillors' concerns. Members agreed.

ACTION: Eleanor Dennis

RESOLVED

1. The Committee noted the contents of the report.
2. The Committee asked for LPPA to attend a future meeting.

7. PENSION ADMINISTRATION STRATEGY

Eleanor Dennis (Head of Pensions) introduced the revised 2022 Pension Administration Strategy (PAS) for the LBHF Pension Fund.

Noting that some employers not providing the required information were schools, Iain Cassidy was keen to ensure the liaison with schools would not cause any reputational risks to the Council. Eleanor Dennis noted that her team mainly liaised with the payroll providers for the required information while reminding the headteachers about their obligation and the possible financial penalty for non-compliance. Sometimes, it involved retrieving legacy data stored elsewhere which might incur a fee to the scheme employers.

Iain Cassidy referred to the good practices identified by the Council's internal audit for its schools in respect of governance, budget management, reporting and payroll processing. He said that schools fined might face questioning by members of the Audit Committee. Councillor Adam Peter Lang noted that finance managers at the schools concerned should receive relevant training on the schools' statutory duty as a scheme employer to comply with the requirement of providing the information. Eleanor Dennis assured members that her team liaised with schools extensively to help them understand their responsibilities. In this regard, the Chair requested the Pension Administration team to provide more granular data on those who were late in data submission, and suggested schools potentially been invited to relevant meeting to discuss outstanding data to support them.

ACTION: Eleanor Dennis

Councillor Florian Chevoppe-Verdier asked about the Pension Regulators' Codes of Practice which sought to ensure all parties were compliant, Marian George (Independent Advisor) noted that they were combined codes currently under consultation and therefore were not available in the public domain yet. Replying his further question, Eleanor Dennis noted that scheme year referred to the period between 1st April and 31st March the following year.

Eleanor Dennis explained that the Local Government Pension Scheme (LGPS) regulations 2013 required fund authorities to have in place a PAS that set out the standards and responsibilities of performance and best practice that Fund and scheme employers who participated in the LGPS should follow. While the LBHF Pension Fund had not imposed any fines in the past two years, actions resulting in fine being levied could be taken if a scheme employer failed to comply with the LGPS regulations including not submitting the data to the Fund.

In reply to Councillor Florian Chevoppe-Verdier's question, Eleanor Dennis said she believed that those successful commercial organisations could afford the fines which however might bring a deterrent effect on the smaller organisations. Nevertheless, schools would be fined as a last resort if they had already been briefed and understood the responsibilities of being a scheme employer and after her team had attempted several chases for data without success.

Referring to paragraph 7.2 of the revised PSA which read:

“An employer who reaches three charges in a scheme year, or where the Fund deems one action is of significant material interest, will be reported to The Pension Regulator, who has the powers to take employers to court and impose fines.”

Councillor Laura Janes considered it necessary to change the wording to “may” rather than “will”. The Chair said that apart from changing the wording, he requested the Pension Administration team to keep the lagged cases under close review.

RESOLVED

The Committee approved the revised 2022 PSA for the LBHF Pension Fund subject to revising the wordings in paragraph 7.2 to tally with current practice.

8. GOVERNANCE LOG OF RECOMMENDATIONS

Phil Triggs (Director of Treasury and Pensions) introduced the report and noted that among the 32 recommendations from the governance report of an independent consultant commissioned by officers to carry out an independent review of the governance arrangements for the Pension Fund, 27 of them had been implemented with five outstanding as detailed in the progress log. He said he was keen to see the final completion of the log, given the extensive time that had elapsed since the report’s publication.

The Chair enquired about the timeline for Pension Administration to complete the outstanding recommendations. Eleanor Dennis (Head of Pensions) noted that her report had also included the log and that there were other higher priority tasks outside the recommendations and there was also a shortage of staff in her team. She expected to complete the outstanding tasks tentatively by the end of the 2022/2023 scheme year and would confirm the estimated timelines at the next Committee meeting.

Councillor Florian Chevoppe-Verdier noted that under the log’s recommendations #23 and #24, both of which had indicated that review or update of the tasks could be undertaken after the Fund’s transfer of its administration service to LPPA which would be January 2023. Eleanor Dennis said in reality the transition had not been smooth and there continued to be issues to resolve in bedding both the new in-house service as well as resolving outstanding issues post migration to a new administration provider. Councillor Laura Janes agreed with Eleanor Dennis that some of the higher priority had been highlighted already in the meeting. Michael Adam suggested that it might be more practicable for the Committee to be briefed once individual tasks had been completed rather than bringing the log to every meeting.

Taking into account members’ views and given the length of time that had passed since publication of the governance report in November 2020, the Chair requested the Pension Administration team updated the comments of the log for the relevant outstanding tasks and confirm the estimated timeline for completion at the next Committee meeting.

ACTION: Eleanor Dennis

RESOLVED

1. The Committee noted the log.
2. The Committee requested the Pension Administration team to update the comments of the relevant outstanding tasks and confirm the estimated timeline for final completion at the next Committee meeting.

9. PENSION FUND QUARTERLY UPDATE PACK

Patrick Rowe (Pension Fund Manager) introduced the report which provided a summary of the Pension Fund's overall performance for the quarter ending 30 September 2022, a cashflow update and forecast as well as an assessment of risks and actions taken to mitigate these. He highlighted the following:

- The unaudited figure of the fund value as of 4 November 2022 stood at £1.26 billion. It was reassuring to note that the fund value had been moving fairly flat despite market volatility; and
- The ESG dashboard had been updated with additional features and hopefully would soon be open to fund members' use.

Members noted that the dashboard was an innovative piece of work accessible to fund members which would help enhance the LBHF Pension Fund's governance and transparency. It was further noted that the LBHF Pension Fund had been nominated for a LGPS Fund of the Year at the LAPF Investments Awards 2022 and the dashboard was an important part of the nomination.

Phil Triggs (Director of Treasury and Pensions) noted that the dashboard, being the first of its kind for the LGPS, was well received at the LGC Conference in Leeds in September 2022 at which he was privileged to chair the session. It was anticipated that the dashboard would become a marketable package for the LGPS and could generate some income for the Fund. It was indeed a huge recognition of the Fund.

Councillor Adam Peter Lang expressed appreciation that some councils had expressed interests about the dashboard which helped promote the H&F council. The Chair said he was proud of the achievement and would celebrate it by moving a motion at the next Full Council meeting to highlight this piece of exceptionally innovative work.

ACTION: Councillor Ross Melton

Patrick Rowe continued to brief members on the Pension Fund's risk registers. Phil Triggs and Kevin Humpherson (Deloitte) outlined the Aviva situation.

Councillor Florian Chevoppe-Verdier referred to the employer risk (#33 on page 119) and asked if the trending up was due to savings. Patrick Rowe noted that the risk rating was determined by a few factors, and it was trending

up because of the current market movement. Marian George (Independent Advisor) said the rating might have actually changed in the course of time.

On the risks around Brexit (#3 on page 116), Marian George said that while there would still be issues relating to Brexit, the extent of uncertainty might be too small to cause volatility. Phil Triggs agreed that the fallout of Brexit which had happened some six years ago should have become ingrained in the economic system. Patrick Rowe said he was happy to remove this risk from the register, but how Brexit was going to be fully resolved was still in the news.

Councillor Chevoppe-Verdier noted that the uncertainty regarding the Northern Ireland Protocol under Brexit remained as the free flow of movements and orders were still causing an impact. He agreed that the part relating to the supply chain disruption was now a fact of life and could be taken out. Iain Cassidy preferred to keep Brexit in the risk register as the Committee might be the Council's window to note the relevant issues of Brexit. Councillor Janes agreed with their views.

Councillor Chevoppe-Verdier referred to previous discussion about the approach of incorporating all the risks for members to take a broader view of the matter.

Referring to the property risk, Councillor Adam Peter Lang considered it necessary to be mindful of the property price movements when assessing this particular asset risk. Michael Adam noted that the properties held by the Fund were long-term investments like social housing or commercial properties with long leases to supermarket chains or government departments. He said that the short-term fluctuations would only affect the cash-flow records under the valuation. Kevin Humpherson highlighted the Fund's diverse portfolio under which property only constituted about 10%. He added that current fluctuations due to inflation would usually take effect at a later period in the valuation cycle. Echoing Mike's view, Phil Triggs said he was not concerned about short-term fluctuations, say, going down 5% over an annual cycle, as it would revert over the long-term investment period looking ahead.

Councillor Laura Janes, in reference to the risk about staff recruitment for the Pension Administration team and the mitigation actions (#46 on page 121), said the entry might be reviewed to reflect the teething problems, if any, raised by Eleanor Dennis earlier for members to consider if they could give any further support.

Jonny Moore (Deloitte) introduced the Deloitte Quarterly Report for Quarter ended 30 September 2022.

Councillor Chevoppe-Verdier asked about the scale of manager ratings listed on page 76. Kevin Humpherson noted that managers were rated from 1 (most positive and most likely to deliver outperformance) to 4 (most negative).

Noting the movement of two key personnel in London CIV, Councillor Chevoppe-Verdier was concerned about any actions alarmed by this. Kevin

Humpherson agreed that changes in leadership might affect day-to-day operation and warrant corresponding actions, but it did not impact on the long-term plan and the types of strategy launched. He noted that the underlying manager from Morgan Stanley would provide the necessary cover.

In reply to Councillor Chevoppe-Verdier's further enquiry, Kevin Humpherson compared the 3-year investment returns of certain asset class. For example, some equities which had returned 8.5% over the last three years had outperformed those having 5% return under the 5% discount rate scenario. The Multi Asset Credit Fund, on the other hand, having long lease property development, was considered a good combination to take up more allocation released from equities. He undertook to bring an investment strategy to the Committee at its next meeting.

ACTION: Kevin Humpherson

Members exchanged views on the arrangements of discussion items. Marian George suggested the Committee having some training on investment strategy before the next meeting, followed by the discussion of the same subject first thing on the agenda. The Chair said between the two responsibilities, the Committee would have regular meetings on pension investment while seeking some focusing solely on pension administration.

ACTION: Phil Triggs

RESOLVED

1. The Committee noted the update.
2. The Committee requested agreed to move a motion at the next Full Council meeting to celebrate the achievement of the dashboard.

10. TASK FORCE FOR CLIMATE-RELATED FINANCIAL DISCLOSURES CONSULTATION

Patrick Rowe (Pension Fund Manager) introduced the report which outlined a 12-week consultation on how LGPS in England and Wales should assess and manage climate risks and opportunities, proposing to disclose information in line with the Taskforce on Climate Related Financial Disclosures (TCFD).

Councillor Florian Chevoppe-Verdier was concerned about the level of resources involved. Patrick Rowe highlighted that the reporting requirements which was expected to be increasing over time would be costly. He said that the London Pension Fund officers' meeting had expressed deep concerns around the costs and suggested leveraging the pooled resources and extending the pool across the whole of the UK. Patrick Rowe noted that if LBHF was a standalone Fund, it might certainly need to engage external resources such as London CIV to do the reporting. Fortunately, as part of the Tri-borough Fund, the three were able to leverage each other's skills and efforts pending more information on the reporting requirements.

Noting that the consultation would end on 24 November, Councillor Laura Janes sought the Fund's response in brief. Patrick Rowe said apart from the cost concern, the Fund agreed with the proposed requirements under the TCFD, including reflecting the risks and opportunities within the investment strategy statement. While agreeing to measure the four proposed metrics and disclose them in the annual report, the Fund considered a meaningful comparison could hardly be made as the methodology used to do the measurement might likely vary.

The Chair suggested circulating the draft response the next morning for members to provide response by the end of the week.

ACTION: Patrick Rowe

RESOLVED

1. The Committee noted the report.
2. The Committee requested circulating the draft response to the consultation for members' comments by the end of the week.

11. DATE OF THE NEXT MEETING

Members noted the date of next meeting:

- 28 February 2023

Phil Triggs (Director of Treasury and Pensions) noted that Patrick Rowe was recently promoted and would take up the new role as the Strategic Finance Manager for Treasury and Pensions.

Members congratulated Patrick who said he would continue the work of the dashboard and organising training for members etc. Phil Triggs reminded members that the next training would be held on 25 November.

The Chair noted that the ceremony for the LAPF Investments Awards 2022 would be held in December and members were welcomed to join. He reiterated moving a motion at the next Full Council meeting to celebrate the achievement. Phil Triggs said that if the LBHF Fund was selected among the shortlisted to receive the Year Award, he would make the necessary arrangements for interested members to attend the ceremony.

Meeting started: 7.26 pm
Meeting ended: 9.38 pm

Chair

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