London Borough of Hammersmith & Fulham

Pension Fund Committee

Minutes

Tuesday 28 February 2023

PRESENT

Committee members:
Councillor Ross Melton (Chair)
Councillor Florian Chevoppe-Verdier
Councillor Adam Peter Lang
Councillor Adrian Pascu-Tulbure

Co-opted members:
Michael Adam
Iain Cassidy

Other Councillors:
Councillor Rowan Ree (Cabinet Member for Finance and Reform)

Officers:
Eleanor Dennis (Head of Pensions) (joined remotely)
Sukvinder Kalsi (Director of Finance) (joined remotely, left at 7:30pm)
Phil Triggs (Director of Treasury and Pensions)
Mathew Dawson (Strategic Investment Manager)
Sian Cogley (Pension Fund Manager)
Peter Parkin (Unison Representative)
Katia Neale (Clerk)

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

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

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Laura Janes.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. MINUTES OF THE PREVIOUS MEETING

RESOLVED

The minutes of the meeting held on 24 January 2023 were approved as accurate records of meeting.

Marian George (Independent Advisor) requested that all future minutes be proposed for approval only at regular meetings, not extraordinary ones.

ACTION: Committee Coordinator

CHANGE OF AGENDA ORDER

The Chair proposed, and it was unanimously agreed, to bring Items 7, 6 and 8 forward on the agenda, in this respective order.

7. TRIENNIAL VALUATION RESULTS AND FUNDING STRATEGY STATEMENT

Sian Cogley (Pension Fund Manager) introduced the report presenting the draft Funding Strategy Statement (FSS) produced by the Fund's actuary (Hymans Robertson), following the 2022 triennial Actuarial Valuation.

The purpose of the FSS was to establish a clear and transparent fund-specific strategy that would identify how employers' pension liabilities were best met going forward and take a prudent, longer-term view of funding those liabilities.

The FSS incorporated the funding approach of the admitted and scheduled bodies, including admissions, new academies, bulk transfers and cessations. The strategy also took into consideration the impact which the McCloud case judgement might have on the pension liabilities. All of the Fund's employers had now received their schedules of future contribution rates with only two queries received from two employers, which had been addressed and resolved.

Steven Scott, FFA (Fund Actuary, Hymans Robertson LLP) stated that the improvement in the funding position was driven by strong investment returns over the past three years. He reported that the Fund was in a very healthy position.

Michael Adam (Co-opted member) asked that, based on the updated funding level at the end of the year and the potential decrease in the inflation level, what were the predictions for the new financial year and the rates the Council would need to pay into the Pensions Fund. He added that if a reduction on the contribution rates was not possible at this time, this Committee should have a discussion about it in the near future.

Steven Scott replied that it was expected that the inflation level would fall. The Pension Fund funding level had improved significantly since the Valuation, largely because higher investment returns were expected in the future than the level assumed at the date of the 2022 Valuation. However, at the same time, the value of the assets had fallen over that period and there were lots of uncertainties in the investment markets over the coming years. They would not recommend any changes to contribution rates due to short-term changes as they were funding for the long-term. In addition, they followed the guidance from an advisory board stating that contribution rates were not expected to be reduced as a result of relatively small improvements in funding levels. However, if there was a clear justification in the future, the contributions could be reduced.

Councillor Adam Peter Lang noted that higher inflation had led to higher primary contributions, leading to an expected additional cost to the Council of £3.6m per annum and, as a result, the primary employer contribution rate had risen to 20.6%. He asked how that would be monitored going forward and how that would affect employee contributions.

Steven Scott replied that employee contribution rates were set by legislation from the Central Government and were based on a salary level basis. He added that changes in the inflation rate and in the level of interest rates that reflected on future investment returns were monitored on a quarterly basis.

In answer to a question from Councillor Florian Chevoppe-Verdier, Sian Cogley replied that the FSS had been shared with employers for comments over a period of one week, due to tight deadlines. However, going forward they would share with employers for comments over a longer period, ideally over one month.

The Chair asked for a report addressing the lessons learned on the process for answering queries raised by employers on Actuarial Valuation.

ACTION: Phil Triggs

Councillor Florian Chevoppe-Verdier stressed the importance to adopt consultation best practices to ensure employers had time to understand and engage with the Valuation contents and ways to respond to their queries swiftly.

In response to a question from Peter Parkin (Unison Representative) regarding the same lessons learned reappearing triennially and the steps taken to resolve the issues with the Valuation, Steven Scott replied that all their work relied on the accurate and timely information provided by employers. As this was a very complex process, they had developed a portal to enable pension funds to give them their data, which included valuations, to capture most of the possible queries that could arise. This data was monitored in a continuous process of improvement. The reality was that the LGPS was becoming increasingly more complex driven by external factors such as number of employers and regulations.

Councillor Adam Peter Lang suggested that it would be useful, whenever possible, to have an executive summary clearly and succinctly explaining the main points made in the report to assist members understanding and to facilitate discussions at the Committee.

ACTION: All report authors

Steven Scott replied that the main point to make to scheme Members was that extreme market volatility did not affect the benefits, as they were guaranteed. The only impact it had was on the cost of those benefits and their funding over the long-term.

RESOLVED

The Committee noted the Triennial Valuation Results and agreed the draft Funding Strategy Statement and to delegate the final approval to the Director of Treasury and Pensions in consultation with the Chair.

6. INVESTMENT STRATEGY STATEMENT

Sian Cogley introduced the draft Investment Strategy Statement (ISS) for 2023, which reviewed the LBHF Fund's investment strategy in terms of the current asset allocation and funding position and highlighted some key areas the Committee should consider for the short and medium-term outlook of the Fund. The document was prepared by the Fund's investment adviser, Deloitte. It identified ways to further reduce risks within the portfolio.

RESOLVED

The Committee agreed:

1. To reallocate 5% from equity to bonds.
2. To invest Aviva proceeds with another infrastructure manager and to rebalance the asset allocation.
3. To increase the strategic Alpha Real Capital Ground Rents allocation to 7.5%, with the additional 2.5% funded from Ruffer, and make an additional subscription to the fund.

8. PENSION FUND QUARTERLY UPDATE PACK

Sian Cogley presented the report which provided a summary of the Pension Fund's overall performance for the quarter ended on 31 December 2022, the cashflow update and forecast, and assessment of risks and actions taken to mitigate these.

The overview of the Fund's performance was provided in Appendix 1 with a scorecard and included administrative investment and cash management performance for the quarter.

Exempt Appendix 2 contained information about the Investment Performance. The highlight over the quarter was that the market value of the assets had increased by £4.3 million.

Appendix 3 contained the Cashflow Monitoring Report which provided the cashflow forecast for the last quarter as well as cashflow forecast to September 2023.

Appendix 4 contained the Pension Fund Risk Registers with no risks added to the register or changes in scores. There had been three changes in trend: Risk 19 regarding inflation risk, Risk 28 regarding liabilities and Risk 31 regarding strain on smaller employers. Their trend came down to neutral as a result of the triennial valuation.

The report included a link to the ESG dashboard which was also available on the LBHF website.

RESOLVED

The Committee noted the contents of the report.

4. PENSION ADMINISTRATION – KEY PERFORMANCE INDICATORS

Eleanor Dennis introduced the report setting out the key performance indicators in respect of the pension administration service provided by Local Pension Partnership Administration (LPPA) on key cases such as estimates, transfers, deaths and retirements for the period October to December 2022.

During this period LPPA processed 958 cases for the fund. However, in line with the challenges that were stated by the LPPA strategic director , performance for Quarter Three had been disappointing and continued to be below the agreed targets, in particular with deaths and retirements were 34 and 33 cases had fallen outside of the SLA. This was mainly down to challenges in the way that the death cases were processed whereby the clock started ticking before the case was actually being looked at by an administrator, and also whereby they were awaiting information coming through from a beneficiary, such as a probate or documents such as proof of residence.

Councillor Adam Peter Lang asked whether the Committee could provide any further support to Eleanor Dennis's team to help improve the disappointing performance and if targets could be set for the next quarter.

Eleanor Dennis thanked the offer of help and reiterated that it was disappointing and frustrating to work with LPPA because, despite being a proactive Administrator, they still needed to improve and meet their core service delivery. Greg Smith (Director of Strategy, LPPA) stressed that they were absolutely focused on getting the service right and were actually going to scale back some of their improvements and ambitions for the future to focus on the core service.

In terms of support she would be willing to bring LPPA back to the Committee to discuss poor performance or to challenge them in a different way. Regarding targets, the Committee could think about a minimum standard by which if LPPA's performance fell below that the Committee could decide on appropriate action and rather than waiting for their quarterly report, they could request an interim update on performance.

The Chair replied that he supported both points, an interim report from LPPA as well as holding them into account to achieve the targets they already have. He reinforced that the Committee would support Eleanor Dennis in any way to hold them into account. They could send them a letter on behalf of the Committee listing the particular concerns on performance deficit.

Councillor Adrian Pascu-Tulbure asked if there were other levers to be used to ensure they performed well and noted that in the private sector this poor performance would not be accepted.

Eleanor Dennis replied that when Greg Smith came to this Committee he had said that he would expect to see an improvement on Quarter Four. She challenged him on that and asked for a realistic and achievable target. He later said it would be Quarter One, therefore she thought that this could be a good trigger point. By this time they would have been with LBHF for just over a year and would have had the opportunity to improve.

Eleanor Dennis added that in terms of actions, the suggestion of a formal letter from the Committee to LPPA, for the attention of the Managing Director, to let them know their dissatisfaction with the service provided would be perfectly reasonable. She had recently been told that LBHF work was being prioritised, but that had not transcended in performance yet. There were issues that needed addressing and a formal letter from the Committee with a formal expectation of that timeline would be helpful.

She added that the private sector was a very different environment and they managed to deliver very well. In a private sector you would not get consistent average wait times of nine or ten minutes.

Peter Parkin stated that Unison' Members main concerns were the delays in receiving their entitled pensions, which was very stressful for Members and their families, especially in case of death.

Eleanor Dennis agreed that Members expected their retirement to be a smooth process, especially after having worked for a considerable amount of time. Therefore, there were certainly some actions that could be looked at, such as communicating timelines more clearly.

Councillor Florian Chevoppe-Verdier asked at what point should the Committee look at an alternative pension administrator and what the availability was on the market.

Eleanor Dennis replied that LPPA should be allowed a certain amount of time to improve due to the complexity in dealing with administration. In addition, no company was 100% perfect. It was a big exercise to change administrator as it costed a large sum of money, and it took a long time and expertise. However, LPPA had disappointed on several fronts, and this was not to be expected as a new client.

The availability of moving to a new administrator could be considered, and if the Committee decided to send them a formal letter, they could be given the opportunity to perform in Quarter Four and Quarter One. And if necessary, making a decision how to proceed going forward, even if only testing the market availability and price. The danger was to go through the selection process, choose another administrator and have other similar performance issues as well as the time and cost to go through such an exercise.

Michael Adam asked how the performance that LBHF was receiving from LPPA compared to their other clients. As a background to the issue he mentioned the poor performance of the two previous Administrators, Capita and Surrey. Therefore there had been three consecutive bad experiences, but in his opinion it was not a public sector versus a private sector problem, but perhaps the bad performance was the result of historic issues.

Iain Cassidy added that the move from Surrey to LPPA took years and astronomical amounts of work and money. The main problem was that the data that Surrey had was a legacy from Capita. Therefore, the data problems were a decade old. He believed that the move from one organisation to another was really cumbersome.

It was suggested that the Committee letter to LPPA could include a deadline by which the Committee would expect better performance. And if that was not achieved the Committee could request a discount on the fees.

The Chair, noting that the next Committee meeting would not be until June, asked Eleanor Dennis if a letter to LPPA could be sent next month with some suggested text around a fee challenge.

Eleanor Dennis explained that a fee challenge would not be possible due to an agreement whereby the costs were shared. The cost of running the service was for all of their clients and LBHF paid a very small percentage based on the size of membership. Within that agreement there was no option for action in case of poor performance, so withholding fees for service would not be possible. However, she agreed the Committee could draft formal letter raising the concerns at this meeting.

ACTION: Committee members

RESOLVED

The Committee considered and noted the contents of this report.

5. PENSION ADMINISTRATION UPDATE

Eleanor Dennis presented the paper setting out the summary of updates on key areas of activity in the pension administration function, the headlines being progressed of the legacy backlog, the increasing wait times on the help desk and, in particular, it requested the approval of the 23/24 budget proposal. The budget would be increasing from £384,000 to £493,000. The main reason behind this significant increase from LPPA was primarily to retain and recruit staff as they had a 32% staff turnover.

They also wanted to establish some new roles to allow them to be compliant in regulatory forthcoming changes and associated with cleansing data. The reality was that the system was not performing as it should be, and it required more resource from their own team. They needed extra funds to bring in expertise resource to get the system performing well, and in the long-term it would provide some cost savings in terms of the cost of the pension service delivery.

Councillor Adrian Pascu-Tulbure noted that in the private sector if a service was failing to deliver to a client they should not ask the client for more money to get more staff to address those failings. He did not understand why LBHF was expected to subsidise failure.

Eleanor Dennis agreed that this would be the case in the private sector. The issue here was that they did not have a contract but had a discharge agreement whereby the costs were shared amongst all clients. As a non-profit organisation there was no option to withhold increasing costs.

Councillor Florian Chevoppe-Verdier noted that the report stated that tackling the backlog began on 9 of January and 198 cases had been tackled in two months. That meant there were 542 left that needed to be tackled in one month. At that current rate they would probably conclude by mid-May, therefore missing on the target.

In terms of the backlog, Eleanor Dennis explained that it was very difficult to quantify the run rate because every case was different and there might be some complex work that needed to be done before completing the case. As Iain Cassidy had mentioned, the change of administrators from Capita to Surrey to LPPA meant there were inherent data issues and some of those legacy issues were not resolved properly by previous administrators and must be fixed before they would be able to complete each case. Therefore it was difficult to predict a realistic run rate because more complicated cases could take a significant amount of time just to get the record right before the actual identified task cold be completed. She had recently heard that the backlog had been restricted further by a resources issue and she would update the committee outside of this meeting on the new timescale. LPPA had said that March was looking unlikely but had not given a realistic timeline.

ACTION: Eleanor Dennis

The Chair asked whether this would be a temporary administration increase with the anticipation that there would be future savings. He also asked what options could be considered and whether they could go back to the Administrator to voice the Committee concerns regarding this request for an increased budget. They could stress that any increase would need to be matched with corresponding increase in performance.

Eleanor Dennis agreed that the right course of action was to send LPPA a formal letter outlining expectations on the understanding that the budget was approved based on performance being as agreed in the service agreement. And probably the only realistic one given the arrangement with the organisation.

The Chair expressed his frustration that their only two options were to either accept this increase or to accept it and then issue a letter. He asked about the nature of the discharge agreement with LPPA, and whether there were opportunities for it to be reviewed.

Eleanor Dennis replied that unfortunately, unless this contract was terminated, there would be no option to review the terms. The omission of a clause to recompense the Fund or fine for poor performance was highlighted by the legal team at LBHF prior to the signing of the documents but because there are shared , not for profit service Lancashire lawyers would not agree to such a clause being added. There was, however, a clause to protect the Fund if it incurred as a result of their poor service.

In view of no other option, the Chair proposed to accept this increase in budget stressing that it should be accompanied with a strong worded letter outlining the Committee's expectations for increases in performance. And secondly for the Committee to set an internal deadline for performance improvement and if that was not achieved, to start looking at alternative options. In addition, to request interim reports outlining their performance but to stress on the letter that the Committee would not accept this being used as an excuse for declining performance.

ACTION: Eleanor Dennis

Eleanor Dennis added that LPPA had mentioned moving towards regular monthly updates, but so far no report had been received. Greg Smith had promised he would look at that. However, she agreed with Councillor Florian Chevoppe-Verdier point that they would use this as an excuse for poor performance, stating that it was time consuming. But her argument was that they already had the data in order to manage their performance and delivery, so they should already be recording it. In fact the help desk information used to be a daily overview that she received on a weekly basis but currently it was just a summary. Therefore, reporting and presenting their data was an issue which was not reflected in the KPIs. It would be a challenge even if they issued those interim reports as the information would be quite restricted.

The Chair asked for an additional line on the letter to state that LPPA had promised interim reports which so far had not been delivered. However, he added that the Committee should expect that more interim reports were likely to be less detailed, but the Committee should still insist on more granular data on specific areas already requested at previous meetings.

ACTION: Eleanor Dennis

The Chair stressed that the Committee was extremely supportive of Eleanor Dennis and her team and appreciated their hard work managing the Administrator and keen to offer any support necessary. He was looking forward to seeing the draft letter within a couple of weeks.

Peter Parkin echoed the Chair's comment because, from the unions point of view, since Eleanor Dennis came on board Members were able to have direct access to her and her team and to receive a quick response regarding their pensions.

RESOLVED

The Committee noted the contents of this report and agreed the increase pension administration providers increased budget.

9. DATE OF THE NEXT MEETING

The date of the next meeting was noted to be on 13 June 2023. However, there were a number of actions to be taken before this date.

10. AOB

Marian George informed that the London CIV Annual Conference (LCIV) would be held on 4 and 5 of September. She urged Members of the Committee to attend as she though it would be interesting. Normally only two people could attend, but if there were higher numbers they should let her know and she would ask LCIV to try to accommodate them.

The Chair asked for the invitation to the London CIV Annual Conference to be sent to all Committee Members when it arrived.

ACTION: Phil Triggs

The Chair requested Mathew Dawson to restore the item on the agenda about the Committee's training requirements.

ACTION: Mathew Dawson

Meeting started: 7.15 pm
Meeting ended: 10.25 pm

Chair ....

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