

Minutes

PENSIONS COMMITTEE

13 December 2023

Meeting held at Committee Room 5 - Civic Centre



HILLINGDON
LONDON

	<p>Committee Members Present: Councillors Stuart Mathers (Chairman) Tony Burles (Vice-Chairman) Kaushik Banerjee Mohammed Islam John Riley</p> <p>LBH Officers Present: James Lake, Director of Pensions, Treasury & Statutory Accounts Andy Evans, Corporate Director of Finance Tunde Adekoya, Finance Manager, Pensions and Governance Claire Baker, Head of Internal Audit Jack Francis-Kent, Senior Internal Auditor Ryan Dell, Democratic Services Officer</p> <p>Also Present: Roger Hackett, Pensions Board Chair Tony Noakes, Pensions Board Member Anna Beattie, Pension Board Member David O'Hara, Isio Andrew Singh, Isio Clare Scott, Independent Adviser Andy Lowe, Hampshire County Council Silvia Knott-Martin, London CIV Yiannis Vairamis, London CIV</p>
29.	<p>APOLOGIES FOR ABSENCE (<i>Agenda Item 1</i>)</p> <p>There were no apologies.</p>
30.	<p>DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING (<i>Agenda Item 2</i>)</p> <p>None.</p>
31.	<p>MINUTES OF THE MEETING - 26 SEPTEMBER 2023 (<i>Agenda Item 3</i>)</p> <p>RESOLVED: That the minutes of the meeting dated 26 September 2023 be approved as a correct record.</p>
32.	<p>TO CONFIRM THAT ITEMS MARKED PART I WILL BE CONSIDERED IN PUBLIC AND THOSE MARKED PART II WILL BE CONSIDERED IN PRIVATE (<i>Agenda Item 4</i>)</p> <p>It was confirmed that items 5–11 were marked as Part 1 and would be considered in public, and that items 12–14 were marked as Part 2 and would be considered in</p>

	private.
33.	<p>ADMINISTRATION REPORT (Agenda Item 5)</p> <p>Officers introduced the Administration Report. Several key achievements and ongoing challenges within the organisation were highlighted. The report painted a positive picture, showcasing consistent 100% performance against the Key Performance Indicators (KPIs). Notably, there had been a significant increase in member portal sign-ups, with the most recent November figures reflecting an almost 40% increase across all three categories, which signified a commendable growth trend.</p> <p>The report detailed a slight improvement from the previous year in specific data scores concerning pensions regulatory requirements, achieving a 90% rating for both common and conditional data.</p> <p>Despite progress, there were persisting issues, particularly regarding lost contacts among historical members and issues with CARE pay, specifically the career average re-valued earnings pay. While notable improvements were made, indicating a nearly halved number of issues compared to the previous year, there were ongoing concerns about rectifying the guaranteed minimum pension, which significantly affected data quality.</p> <p>The annual return benchmarking exercise highlighted a number of performance issues with employers. Performance was recorded last year, but as it was the first year, and employers were getting used to the new system, results were not reported. This year officers had written to senior staff at employers to highlight the results and issues. Overall performance was not good so officers would work with employers to improve the process going forward.</p> <p>Updates were provided regarding benefit statements, which highlighted a positive trajectory, with active benefit statements reaching 99.34% completion by November.</p> <p>Members sought elaboration on cybersecurity measures and the effectiveness of penetration tests. It was clarified that a recent penetration test conducted by Infotech had revealed a limited number of vulnerabilities. The IT department had promptly initiated measures to address these vulnerabilities, working closely with software suppliers to rectify the identified issues. Ongoing external penetration testing, coupled with consistent IT efforts, suggested a positive trend in maintaining robust cybersecurity protocols.</p> <p>The Committee was reassured that identified vulnerabilities were being actively addressed, with plans in place to resolve the few high-level concerns already in progress. Overall, there were no major issues to report at that stage.</p> <p>RESOLVED: That the Pensions Committee:</p> <ol style="list-style-type: none"> 1) Noted the administration update; 2) Noted the Cyber Security Vulnerability Update; and 3) Noted Active Benefit Statements Update
34.	INTERNAL AUDIT - EFFECTIVENESS OF PENSION COMMITTEE (Agenda Item 6)

Officers introduced the Internal Audit Report. Internal Audit had carried out an assessment of the effectiveness of the Pensions Committee, and the report was the culmination of work conducted by the Internal Audit team during August and September, aiming to evaluate the efficiency of the Pensions Committee.

Officers expressed that the audit's overall conclusion was a positive assurance opinion of reasonable assurance, aligning with pre-established expectations. However, it was noted that the outcome was one level down from the highest achievable rating, which was termed "substantial."

There were two medium-level issues and one low-level concern identified. These findings primarily pointed out deficiencies in controls related to training, self-assessment procedures, and Members' comprehension of technical terminology. The audit highlighted the presence of adequate provisions for training, although gaps in the completion of training were identified during the testing phase. This was partially attributed to a new Member joining the Pensions Committee. Additionally, at the time of testing, the absence of implemented self-assessment mechanisms was observed. However, plans were noted to introduce these assessments in the near future.

The Chair of the Pensions Board expressed interest in exploring how the Committee could swiftly address the issues regarding technical terminology comprehension and the implementation of self-assessment measures. In response, differences between the Committee's self-assessment protocols and those of the Pensions Board were noted. It was emphasised that while similarities existed, distinct roles played by these groups necessitated tailored approaches for each. Plans were noted to create a customised assessment tool specific to the Committee's needs.

Members acknowledged the challenges faced by a Committee primarily comprised of new Members. The Chair suggested refraining from the implementation of the recommendation to incorporate an experienced independent member. Members advocated for allowing the Committee time to adapt, grow in confidence, and undergo further training before considering such a step. The Chair was happy to approve all other recommendations. The idea of postponing the inclusion of an experienced independent member was given support, concurring that the Committee needed time to evolve and build confidence.

Members drew attention to the substantial workload they faced in preparing for meetings and suggested the possibility of earlier distribution of the agenda to afford Members more time for in-depth review and comprehension. The Chair suggested that this could be looked at, even if it meant only part of the agenda was distributed earlier.

Additionally, plans were noted about creating a condensed handbook/ resource guide to aid Members in understanding essential concepts. Members further proposed the establishment of a glossary or reference point to support them. Officers noted that efforts were underway to develop a concise handbook offering key information to assist in comprehension.

The Committee collectively agreed to accept the recommendations from the audit report. However, they chose to delay the implementation of incorporating an experienced independent member, aiming to afford themselves additional time for growth, knowledge enhancement, and effective contributions before potentially introducing an experienced independent member.

The Chair expressed gratitude to the internal audit team for their meticulous evaluation

and insightful contributions towards enhancing the effectiveness of the Committee.

RESOLVED: That the Pensions Committee:

- 1) Noted the Internal Audit report; and**
- 2) Considered the implementation of suggested recommendations for the risks highlighted in the report**

**35. INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE - PART I
(Agenda Item 7)**

Officers outlined the fund's performance over the quarter. The report indicated a negative return of -0.55% for the quarter, slightly below the benchmark's flat 0%. Over longer periods, 3 to 5 years, the fund showed positive performance of 3.53% and 2.50% respectively, which were below the 4.1% target set in the Funding Strategy.

An interim funding level update was produced by the actuary on 30 September 2023. It showed that the funds' assets were £1,184m and equated funding level of 113%, a decrease of 1% from the previous quarter. The primary reason for the reduced funding level was a drop in asset value.

Asset allocation was briefly noted, indicating that a more in-depth discussion would be held in Part II. The report highlighted the fund's current underweight positions in multi-asset credit (2.4%) and index-linked gilts (3.6%), with a slight overweight position in global equities (3%).

Members expressed interest in understanding the fund's exposure to China and how the country's economic situation impacted its performance. This prompted a discussion on Bailey Gifford's investment strategies. The Committee delved into the impact of these decisions, emphasising how stock-specific mistakes and a growth-oriented strategy during a period of higher interest rates contributed to underperformance.

Concerns were raised about the fund's underperformance, particularly considering the relatively recent inclusion of Bailey Gifford in the fund. The Committee sought information on the potential timeline for recovery and improvement. However, the response highlighted the complexities of market dynamics, making it challenging to predict the precise duration for recovery and emphasising the importance of maintaining a long-term investment perspective.

Discussions extended to changes in Bailey Gifford's senior management and their influence on the fund's performance. It was highlighted that a generational shift had occurred within the portfolio management team, with a new portfolio manager joining, which had a positive impact on team dynamics.

Members suggested that the Committee should familiarise themselves with specific indicators within the report that could serve as performance metrics for assessing Bailey Gifford's progress. This suggestion aimed to equip the Committee with tools to effectively evaluate the fund's performance.

Overall, the discussion emphasised the intricate interplay of market factors, investment strategies, and the need for the Committee to adopt a long-term perspective while vigilantly monitoring the fund's performance.

	<p>This comprehensive conversation underscored the importance of ongoing engagement with fund managers, understanding key performance indicators, and the need for patience while evaluating the fund's progress and potential recovery.</p> <p>RESOLVED: That the Pensions Committee noted the funding and performance update</p>
36.	<p>RESPONSIBLE INVESTMENT (<i>Agenda Item 8</i>)</p> <p>Officers introduced the Responsible Investment report, giving the usual update on activities conducted by LGIM and LCIV. Additionally, highlights of the activities carried out by the Local Authority Pension Fund Forum, a lobbying partner, were included in the update. It was noted that these initiatives collectively contributed towards a positive Environmental, Social, and Governance (ESG) result.</p> <p>The upcoming necessity to revisit the Stewardship Code was noted. Members were informed that they would be contacted to discuss the most effective approach and required amendments for the submission related to the code.</p> <p>Members were informed that they were halfway through the yearly assessment period for evaluating stakeholders on their ESG performance against the established scorecard. There were six months remaining for stakeholders to present evidence demonstrating their compliance and performance against the set standards. Members noted that Bailey Gifford integrated ESG factors well into their investment process.</p> <p>RESOLVED: That the Pensions Committee:</p> <ul style="list-style-type: none"> 1) Noted the fund managers' ESG activities and compliance efforts; and 2) Noted LAPFF activities
37.	<p>RISK REGISTER REPORT (<i>Agenda Item 9</i>)</p> <p>Officers introduced the Risk Register report. It was noted that the Risk Register had undergone scrutiny by the Chair and officers. Notably, the review revealed no alterations from the previous quarter, resulting in minimal updates or changes to report.</p> <p>It was noted that, considering the prevailing circumstances and the established measures in place, there had not been significant alterations in the last three months. Acknowledging the ongoing work being carried out to enhance governance, there was expressed confidence in the continued progress in those areas.</p> <p>RESOLVED: That the Pensions Committee considered the Risk Register in terms of the approach, the specific risks identified, and the measures being taken to mitigate those current risks</p>
38.	<p>GOVERNANCE (<i>Agenda Item 10</i>)</p> <p>Officers introduced the item. It was outlined that there had not been any significant alterations in the training events since the previous quarter. However, an alignment with the internal audit report was emphasised, highlighting the necessity for a customised training plan to bridge knowledge gaps. It was proposed that the Hyman's assessment tool be used to identify these gaps effectively.</p>

Several policy updates were presented:

The Scheme Pays Policy, which addresses tax burdens and the ability to use future pensions to settle these, underwent a general refresh without significant changes.

The Governance Policy changes were acknowledged, particularly the updates related to LCIV, aligning with its evolving position.

The Training Policy was reviewed, emphasising the training required for Committee Members, officers, and the inclusion of a knowledge assessment framework. An external assessment tool from Hyman's was proposed, supported by discussions highlighting its ability to identify gaps, aid in targeted training, and develop customised plans.

The Administration Strategy was noted, and it was detailed as a set of rules dictating the duties of both the fund as an administrator and the employers. The strategy highlighted the importance of timely information from employers and outlined potential considerations for charging employers in cases where additional costs were incurred due to non-compliance. Discussions involving the Administration Strategy emphasised the need for a balanced approach between support and enforcing compliance among employers.

Regarding cost inquiries for the assessment tool and potential training modules, clarifications were sought and provided, indicating the annual cost and optional additional fees for accessing Hyman's training portal, pending the Committee's needs post-assessment.

RESOLVED: That the Pensions Committee:

- 1) Noted the dates for Pensions Committee meetings;**
- 2) Made suggestions for future agenda items, working practices and/ or reviews;**
- 3) Noted the Committee's training update;**
- 4) Approved the Scheme Pays Policy;**
- 5) Approved the Governance Policy;**
- 6) Approved the Administration Strategy for consultation;**
- 7) Approved the Training Policy; and**
- 8) Approved the use of the Hymans Self-Assessment Tool**

39. PENSION FUND ANNUAL REPORT & 22/23 EXTERNAL AUDIT PLAN (Agenda Item 11)

Officers introduced the Pension Fund Annual Report and the External Audit Plan. It was noted that the presented report followed the format specified by the Chartered Institute of Public Finance and Accountancy (CIPFA) and was presently undergoing scrutiny by the external auditors, EY. The annual report encapsulated the fund's

	<p>activities over the year.</p> <p>Further clarification was offered on the Pension Fund Audit Plan, indicating that its presentation to the Audit Committee occurred in November 2023. The primary change from the prior year's plan was identified as an additional risk related to the fair value level classification, a classification method for specific investments within the accounts.</p> <p>Progress concerning the audit process was shared, highlighting that the audit commenced in October and has been proceeding smoothly without any reported issues up to the current stage. The anticipated outcome of the audit is expected in Quarter 1 of 2024.</p> <p>Members commended the annual report for showcasing the fund's dedication to the stewardship code and ESG factors. Members also emphasised the significance of the fund's commitment to pooling, noting its advantages in managing funds and reducing costs.</p> <p>Members expressed gratitude to the officers, advisors, Board Members, and the Committee Members for their collective efforts and contributions throughout the year, acknowledging the complex nature of the subject matter.</p> <p>RESOLVED: That the Pensions Committee:</p> <p style="padding-left: 40px;">1) Approved the 2022/2023 Draft Fund Annual Report; and</p> <p style="padding-left: 40px;">2) Noted the EY External Audit Plan</p>
40.	<p>INVESTMENT PART II - STRATEGY REVIEW AND MANAGER UPDATES - INCLUDING INVESTMENT STRATEGY STATEMENT (<i>Agenda Item 12</i>)</p> <p><i>This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).</i></p>
41.	<p>2023/24 BUDGET UPDATE (<i>Agenda Item 13</i>)</p> <p><i>This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).</i></p>
42.	<p>ISIO CMA PERFORMANCE (<i>Agenda Item 14</i>)</p> <p><i>This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).</i></p>

43.	VERBAL UPDATES (<i>Agenda Item 15</i>) Officers noted that there would be an update to the Pension Board's working practices to increase its membership from four to six members. There was a new employer representative and efforts were ongoing to recruit to the scheme member vacancy. This would help to improve the robustness of the Pensions Board.
	The meeting, which commenced at 5.00 pm, closed at 8.05 pm.

These are the minutes of the above meeting. For more information on any of the resolutions please contact Ryan Dell at democratic@hillington.gov.uk. Circulation of these minutes is to Councillors, Officers, the Press and Members of the Public.