



Pension Fund Committee 31 January 2023

Title	Officer Delegation Proposal
Report of	Executive Director of Strategy and Resources (S151 Officer)
Wards	N/A
Status	Public
Urgent	No
Key	Non-key
Enclosures	None
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Summary

This paper makes a recommendation to improve overall Governance of the Fund's investment management processes by codifying delegation protocols in certain defined situations.

Officers Recommendations

The Pension Fund Committee is asked to amend the Investment Strategy Statement to introduce:

1. Delegation protocols for the Executive Director of Strategy and Resources to re-balance the Pension Fund assets according to the strategic allocation set by the Pension Fund Committee; and
2. Delegation protocols for the Executive Director of Strategy and Resources to be able to take action in an urgent situation

The delegation protocols are summarised under 2.3.1

1. Why this report is needed

- 1.1 The Pension Fund Committee is responsible for the management of Pension Fund assets, of which this paper discusses. This paper recommends that the Pension Fund Committee introduces protocols to improve overall governance of management of Pension Fund assets.

2. Reasons for recommendations

2.1 Context

- 2.1.1 At present, all decisions regarding commitments, and disposals, to investments are made by the Pension Fund Committee. The role of Officers is to make recommendations to the Pension Fund Committee and implement decisions, but Officers do not have authority to make investment decisions unilaterally or outside of the Committee meeting cycle.
- 2.1.2 Investment markets can change very quickly. For example, over the past 18 months there has been significant market volatility, with some pension funds in the private sector being faced with significant pressures that required quick decision making to manage (through their use of Liability Driven Investment “LDI” products)

2.2 Areas for Officer Delegation considered

- 2.2.1 At the 10th November 2022 Pension Fund Committee meeting Officers were asked to consider what delegation should be implemented and take proposals to the January 2023 Pension Fund Committee meeting
- 2.2.2 After consulting with advisors and considering what delegation could be implemented to improve governance, Officers have identified two areas where protocols for delegations should be established:

2.2.2.1 Re-Balancing:

The Pension Fund Committee sets out its strategic allocation of the Pension Fund assets to different asset classes within its Investment Strategy Statement. Currently, there is no mechanism to re-balance assets when the allocation drifts away from the strategic allocation outside of making formal proposals at Pension Fund Committee meetings. Introducing protocols to manage this would allow Officers to more easily maintain the strategic allocation determined by Pension Fund Committee

2.2.2.2 Urgent Situation:

There are mechanisms to make urgent decisions outside of the Committee cycle, but these are not well defined and do not necessarily include Pension Fund Committee members. Officers are concerned that in a distressed situation precious time might be wasted establishing the mechanism to make a decision rather than dealing with the matter at hand. Officers therefore feel having a well-defined protocol for an urgent situation is a matter of good governance

- 2.2.3 We summarise two examples where delegation may have been need in Section 2.3.

2.3 Proposals for Delegation, and Reasoning

2.3.1 Below are the Proposals for protocols that we would introduce into the Investment Strategy Statement to allow delegation for Officers to manage the two areas described above. Officers are asking Pension Fund Committee members to agree to the proposals and, pending this agreement, Officers will update the Investment Strategy Statement to reflect what has been agreed.

Delegation Type	Proposal	Rationale
Re-Balancing	<p>Officers propose that the Executive Director of Strategy and Resources will, in conjunction with our investment advisors, review the value of Pension Fund assets Quarterly and will have discretionary delegation to rebalance assets towards the Fund’s strategic allocation if the Executive Director of Strategy and Resources believes it appropriate.</p> <p>Officers do not wish to codify rules around how they would implement this as there are many reasons why assets may drift from their target allocation. However, in making decisions, Officers will consider a broad range of factors such as overall market sentiment, size of drift, likely future changes to investment strategy and any other factors brought to their attention by their advisors.</p> <p>Before Officers take steps to re-balance the portfolio towards the strategic allocation, Officers will consult with the Chair of the Pension Fund Committee. The Executive Director of Strategy and Resources will deliver a report at the next Pension Fund Committee meeting detailing what rebalancing had been conducted.</p>	This will allow Officers to maintain the strategic allocation determined by Pension Fund Committee

Delegation Type	Proposal	Rationale
Urgent Situation	<p>Officers propose that upon an identification of a potential urgent situation (i.e. a situation that requires urgent action to protect the resources of the Pension Fund), a briefing paper, prepared by the Executive Director of Strategy and Resources (S151 Officer), will be presented to the Chair of the Pension Fund committee at the earliest opportunity.</p> <p>This paper will outline the issues, the potential risks to the Pension Fund, and proposed solutions.</p> <p>The Chair, and the S151 officer, will then consult with advisors, Officers, and other Pension Fund Committee members. Following this consultation, the S151 Officer can then implement a solution they believe is best for the Pension Fund.</p> <p>The S151 Officer will then, within 30 days, circulate a report to Pension Fund Committee members detailing the situation and steps taken to protect the Pension Fund. The report will be shared for noting at the next Pension Fund Committee meeting.</p>	<p>This protocol will protect the Pension Fund by allowing Officers to be more responsive to urgent situations.</p> <p>As noted, this allows Officers and advisors to focus more clearly on the appropriate solutions to the situation, rather than what else they need to do in order to get authorisation to implement the solution.</p>

2.4 Case Studies where delegation may have been needed

2.4.1 We summarise two case studies below, both recent and one very specific to the Pension Fund, to illustrate situations where delegation may have been needed.

What	Issue	Outcome
<p>Alcentra Multi-Asset Credit</p>	<p>In September 2021 Alcentra announced numerous team changes, including resignation of their new Chief Investment Officer. This resulted in our investment advisors (Hymans Robertson) reviewing the fund and downgrading their rating down to “Negative”, meaning they were providing their clients with a recommendation to sell this investment.</p> <p>This would have resulted in a high number of investors submitting disposal requests, and thus would have likely resulted in a drop in asset value, and liquidity issues for Alcentra MAC as they looked to sell underlying holdings in order to meet these withdrawal requests.</p>	<p>Luckily for the Pension Fund a Pension Fund Committee Meeting was held two weeks after this issue was identified by Hymans, meaning that a paper asking for approval in the disposal of Alcentra MAC was brought to that committee meeting, and officers could enact a disposal of Alcentra MAC in a timely way.</p> <p>However, if this issue arose where there was not a Committee meeting for a few months, then the Pension Fund could have been subject to the risks associated with lagging behind the other investors submitting those disposal requests.</p>
<p>Pension Funds with LDI issues</p>	<p>In September 2022, following the “mini-budget” announced by Government, pension funds with significant LDI holdings faced severe liquidity issues due to a steep rise in interest rates and the resulting margin requirements.</p>	<p>The Pension Fund did not hold any of these types of investment, and therefore was not subject to the risks associated with holding them at this time.</p> <p>However, if the fund did hold these types of investment, then officers would not have the delegated authority to dispose of these assets or take mitigating action to limit the potential loss to the pension fund.</p>

3. Alternative options considered and not recommended

3.1 There are other areas where delegation might be appropriate (e.g. to take advantage of a short window of opportunity within a particular investment market), but Officers do not wish to develop protocols around these areas at this time.

4. Post decision implementation

- 4.1 Officers will update the Investment Strategy Statement to reflect the agreed changes to protocols.

5. Implications of decision

5.1 Corporate Priorities and Performance

- 5.1.1 The current corporate plan (Barnet Plan 2021-2025) was adopted in March 2021. Following the May 2022 elections, the council now has a new administration and a new corporate plan, consistent with the new administration's priorities will be brought forward shortly.

5.2 Resources (Finance & Value for Money, Procurement, Staffing, IT, Property, Sustainability)

- 5.2.1 The Pension Fund appoints external fund managers to maximise Pension Fund assets in accordance with the Fund investment strategy. The Pension Fund is a long-term investor and short-term volatility of investment return is expected. In the longer term, the appointed fund managers are expected to deliver positive returns in accordance with the Fund benchmarks. The global diversification of the Pension Fund portfolio gives some protection against the market volatility. The funding level of the Scheme uses a valuation of the future liabilities discounted using gilt yields. The mismatch between assets held and the method of valuing future liabilities will also result in volatility of funding levels.
- 5.2.2 This proposal allows the Pension Fund to manage/mitigate against loss more effectively.

5.3 Legal and Constitutional References

- 5.3.1 Constitution- Under article 7 one of the responsibilities of the Pension Fund Committee is 'To ensure compliance with all Local Government Pension Scheme statutes, regulations and best practice.' This includes ensuring risk on pension fund assets are managed effectively.

5.4 Insight

- 5.4.1 N/A

5.5 Social Value

- 5.5.1 N/A

5.6 Risk Management

- 5.6.1 This proposal allows the Pension Fund to manage its risk of loss in times of financial turmoil.

5.7 Equalities and Diversity

- 5.7.1 Pursuant to the Equality Act 2010, the Council is under an obligation to have due regard to 1) eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; 2) advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it;

and 3) fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation. The Council also has regard to the additional protected characteristic of marriage and civil partnership even though this does not apply to parts 2) and 3) (above) of the public-sector equality duty.

5.7.2 The rules governing admission to and participation in the Pension Fund are in keeping with the public-sector equality duty. The public sector equality duty requires public authorities in carrying out their functions to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010. Good governance arrangements and monitoring of the Pension Fund's managers will benefit everyone who contributes to the fund.

5.8 Corporate Parenting

5.8.1 N/A

5.9 Consultation and Engagement

5.9.1 N/A

6. Environmental Impact

6.1.1 This proposal allows the Pension Fund to be more aligned to its strategic allocation, which is determined by the Pension Fund Committee. This strategic allocation has allocations to ESG and Responsible Investment funds.

7. Background papers

7.1 None