

Decisions of the Pension Fund Committee

2 November 2023

Members Present:

Cllr Simon Radford (Chair)
Cllr Anne Hutton (Vice-Chair)

Councillor Andreas Ioannidis
Councillor Peter Zinkin (substituting for Cllr Simberg)
Councillor Arjun Mittra (substituting for Cllr Woodcock-Velleman)

Councillor Mark Shooter

Apologies for Absence

Councillor Woodcock-Velleman
Councillor Elliot Simberg

1. **MINUTES (Agenda Item 1):**

RESOLVED that the minutes of the meeting held on 4 July 2023 be agreed as a correct record.

2. **ABSENCE OF MEMBERS (Agenda Item 2):**

There were none.

3. **DISCLOSABLE PECUNIARY INTERESTS AND NON PECUNIARY INTERESTS (Agenda Item 3):**

Councillor Arjun Mittra declared a non-pecuniary interest by virtue of the fact that he had small investments in funds which may be discussed by the Committee as part of the Investment strategy. The same declarations were made by all Members of the Committee.

Councillor Andreas Ioannidis declared a non-pecuniary interest by virtue of the fact that he was a member of the pension scheme at Middlesex University.

Councillor Simon Radford declared an ongoing interest in that his employer receives donations from many financial firms which may be relevant to the scheme, however he does not work in a business development role.

4. **PUBLIC QUESTION AND COMMENTS (IF ANY) (Agenda Item 4):**

There were none.

5. **REPORT OF THE MONITORING OFFICER (IF ANY) (Agenda Item 5):**

There were none.

6. **MEMBERS' ITEMS (IF ANY) (Agenda Item 6):**

There were none.

7. TEMPORARY EASEMENT IN CONTRIBUTION (Agenda Item 7):

The Chief Executive presented his report. The report set out a series of options for the Pensions Committee to consider on whether the London Borough of Barnet, as an employer, should have a temporary easement in deficit contributions towards the Pension Fund. The Committee was advised that an extraordinary meeting had been convened for the 29 November for the Committee to respond to the request.

The Committee were reminded that at the last triennial evaluation in 2022 the Pension Fund was 95% funded. Since the valuation, the deficit gap has been eliminated, with the Actuary estimating that at the most recent funding update at 30 September that the Fund was 127% funded. This position had arisen primarily due to increased long-term interest rates which also impacts the discount rate for measuring pension benefits. The Committee was advised that, against this background, councils' budgets throughout the Country were becoming increasingly strained. For example it was forecasted by the County Council Network that 1 out of 10 County Councils will face very significant budgetary pressures.

Officers presenting the case for an easement to deficit contributions advised that 2/3rd of the Council's overspend was on Adult Social Care and this was related to high number of hospital discharge and the Council having to accommodate social care costs. The Committee was informed that the Central Government funding formula had not kept up with the level of population growth in the outer London Boroughs

The Committee was advised that the Council had £50million in useable reserves for revenue purposes but that this amount would increasingly be needed in the future to address current revenue overspend. At present, officers are exploring ways to protect the Council's level of reserves, and this includes reviewing the council's deficit contribution rate to the Pensions Fund and not increasing the Pension Fund's current surplus beyond what might be considered prudent. The options viewed include an easement towards deficit contributions. The Committee was advised that following the 31 March 2022 valuation the Council had agreed to pay 1% more than the contribution rate strictly required by the Actuary.

The Committee held a brief discussion and commented on the following: -

- That the Committee would require detailed and robust legal and actuarial advice before it could give its response (the Head of Pensions and Treasury confirmed he had commissioned such advice)
- That any agreement would be subject to certain safeguards (e.g., around monitoring and reporting back to the Committee on the financial performance of the Fund and / or the Council, and also ensuring the Council is budgeting an appropriate amount towards pensions for the future)
- Officers advised that it was not forecasted that the Council would be serving a Sec. 114 Notice within the next 24 months.

RESOLVED

1. That the Pension Fund Committee considered the request, in principle, of a temporary easement in employer contribution as set out in the paper.
2. That the Pension Fund Committee considered what additional assurances it would like in respect of any proposal in advance of any formal consideration of such an easement.
3. That the Pension Fund Committee considered its position in relation to the existing policy.

8. PENSION FUND INVESTMENT PERFORMANCE REPORT (Agenda Item 8):

The Finance Manager presented his report which provided an update on investment valuations, transactions, and performance to 30 June 2023 with an updated estimated valuation to 30 September 2023.

- Members noted that the London CIV Sustainable Exclusion Global Equity Fund had underperformed the Benchmark.
- Hymans commented that this type of actively managed and relatively concentrated Fund is expected to deviate from the Benchmark performance, and could be considered inside of this range, however any underperformance should be monitored to see if it persists.
- Officers commented that other Investors within LCIV had expressed similar concerns on fund performance and that LCIV held a session with RBC, the underlying manager, to explain their performance. Officers would look to share the output of that session to the extent it was available and speak to Hymans about what actions should be taken in relation to the Fund (**ACTION**).

RESOLVED

The Pension Fund Committee noted the investment activities and performance of the Pension Fund to 30 September 2023.

9. INVESTMENT STRATEGY AND MANAGER APPOINTMENTS (Agenda Item 9):

The Finance Manager presented his report and explained that Officers had undertaken a process of consolidation of all recent changes to the Investment Strategy within a new Investment Strategy Statement and that we would be asking the Committee to approve this new document.

Rob Treich, Head of Public Markets at the London CIV and Stephanie Aymes Client Relations Manager London CIV introduced themselves and provided details about their retrospective roles. Mr Treich set out the process used to select the Fund Manager, and this included using a Managers Selection Framework which forms part of the London CIV Investment Governance Framework.

The Committee was advised that there was a wide screening of high-quality managers of credit portfolios, and this involved screening the track records in terms of credit selection and avoidance of defaults and downgrades over a sustained period. The Committee was advised that Insight Investment Management was recommended due to their capability, credit selection, track record of default avoidance over a sustained period, leadership in the market for buying maintained credit, portfolio optimisation skills and high performers in responsible investing and climate analysis in terms of credit and strong risk management capabilities.

Members discussed the following points: -

- Credit risk was discussed at length and it was noted by Insight that historic default rate in investment grades were low and that there were often long periods of companies not defaulting.
- LCIV noted that there would be no traditional benchmarking index for the new Fund and borrowers would be selected on the basis on their capacity to repay debt over the longer term. There would be opportunities for rotation and reinvestments, and this would be based on maturity. The New Fund provides an option of an income which could be paid to the Pensions Fund on a quarterly basis.

RESOLVED

- 1. The Pension Fund Committee noted other investment transactions that have occurred in the four months from June to September 2023, and the further planned transactions for 2023.**
- 2. Approved the proposed move of assets in the Schroders Corporate Bond Fund to the LCIV Long Duration Buy and Maintained Credit Fund (pending Hymans Suitability Report).**
- 3. Approved the updates to the Investment Strategy Statement**

10. RISK MANAGEMENT REVIEW (Agenda Item 10):

The Pensions Manager presented his report on the Pensions Fund risk register which detailed the risks associated with the management of the scheme, including current assessment and planned actions and targets.

The Committee were advised that a review of the Fund's Risk Registers was undertaken earlier in the year with the aim of making the document more user-friendly and the analysis and reviews of risks by officers more effective. The Non-Administration Risk Register will be reformatted as the same as the Administration Risk Register. Members held a discussion regarding the Risk Register format and noted that officers' names would be assigned to an action and that ownerships of individual risks would be to a post holder. This is to ensure accountability and actioned points are fully implemented.

Officers advised that in relation to Risk 15, which deals with cyber security breaches, the administrators at the West Yorkshire Pensions Fund (WYPF) had recently undertaking tests regarding their data security which included ransomware attacks. There were three cyber-attacks scenario tested which included one of those experienced by Capita, these were reported to be successful and a report regarding findings will be presented to both

the Local Pension Board and the Committee. Members highlighted that the proficiency and sophistication of hacker's methods in testing data weaknesses was constantly evolving, and this needed to be contemplated and fully guarded against.

Officers advised that the Committee could provide feedback regarding the reformatted Risk Register and Non-Administration Risk Register new format.

The Chair thanked officers for their work on the revised Risk Register template.

RESOLVED

1. The Pension Fund Committee noted the most recent administration risk register and its updated format.

2. The Pensions Fund Committee noted that the non-administration risk register is currently being updated into the new format and will be reported on at the next Committee meeting.

11. POOLING UPDATE (Agenda Item 11):

The Head of Pensions and Treasury presented his report which provided an update on pooling, namely on the Government's Pooling Consultation (together with Barnet's response) and awareness of a new investment fund developed with London Collective Investment Vehicle (CIV) considered further within the Investment Strategy paper. A more comprehensive pooling update was provided at the 4 July 2023 Pension Fund Committee meeting.

RESOLVED

1. The Pension Fund Committee noted the importance of pooling and the update provided by Officers.

2. The Pension Fund Committee noted Barnet's Consultation Response as set out in Appendix 1.

12. ADMINISTRATION PERFORMANCE REPORT AND UPDATE ON OTHER ADMINISTRATION AND LEGISLATIVE MATTERS (Agenda Item 12):

The Pensions Manager presented his report which provided an update on the current administration performance by West Yorkshire Pension Fund (WYPF), along with updates on other administration and legislative matters.

There will be a review of WYPF performance under the terms of the administration strategy of the Fund. There is continual work on the data improvement plan, and this include working on various areas to reduce data issues inherited on member's record.

Members were advised that WYPF fees were per member and that the operational costs would have been affected by inflation and these include staffing cost. WYPF have also had to make substantial investments in their IT systems following the McCloud ruling on benefit entitlements coming into effect. The WYPF would be liaised with regarding their fees.

Members were reminded that at their 2022 valuation it was identified that there was a £50 million data deficit by the Fund Actuary. The Committee was advised that the data quality in 2019 was poor and improvement had since been made by WYPF and the Committee since 2022. The Committee was advised that Officers had undertaken work to reconcile the 2019 data with 2022 figures and were considering using a third party to reconcile the 2019 to 2022 data files. Members noted that there would be cost implications alongside benefits in getting assurances of figures. Members were advised that they would be provided feedback about any third-party data reconciliation at their January meeting. **(ACTION)**

The Funds Engagement Strategy Communication Policy will be reviewed, and an updated version will be presented at the January 2024 Committee.

RESOLVED

The Pension Fund Committee noted the current performance levels by WYPF and updates on other administration and legislative matters.

13. RESPONSIBLE INVESTMENT UPDATE (Agenda Item 13):

The Head of Pensions and Treasury presented his report which provided an update on the Framework that has been developed to progress the Pension Fund's NetZero strategy. Members held a discussion and noted that a transition to a Net Zero Portfolio should take place by choosing funds that allow the Pension Fund to meet its risk and return targets and meet its Fiduciary Duty and that this analysis would guide decisions.

The Committee was advised that the Fund had a 'risk and return' budget, and any underperformance could affect this Fiduciary duty in paying pensions. The Committee was informed that there would be instrument within their risk and return parameters that allows for 2030 Net Zero targets to be met without putting returns and contributions rates at risk. Elements of the Committee noted that several climate risks were underpriced and noted that returns could be enhanced if quality assets were chosen.

The Committee was advised that Members would be offered a 1-2-1 session to go through the Net Zero strategy **(ACTION)**

RESOLVED

The Committee noted the contents of the report and the progress made towards developing our NetZero Model Portfolio and the actions this generates for 2024.

14. KNOWLEDGE AND UNDERSTANDING (Agenda Item 14):

The Pensions Manager presented his report which summarised actions that will be taken by the LBB Pensions Team to keep records of Committee Members' and Local Pension Board Members' training. Members were reminded that CFA Institute was facilitating training for their Pensions Board the week commencing 6 November and that they could attend. The Committee were reminded that they were required to complete all the

modules on the LGPS Online Learning Academy (LOLA) training portal and advise officers of any training needs and courses completed.

RESOLVED

- 1. That the Pension Fund Committee noted the contents of this report.**
- 2. That the Pension Fund Committee noted the training options available as set out in Appendix A.**
- 3. That the Pension Fund Committee noted the LBB Pensions Team recommendation that the Committee members complete the LGPS Online Learning Academy (LOLA) training by 31 December 2023.**

15. ADMISSIONS, CESSATIONS AND BOND STATUS UPDATE (Agenda Item 15):

The Pensions Manager presented his report which provided a status update on the outstanding admissions, cessations and bond agreements/renewals. The report also details the proposal from the LBB Pensions Team for a new admissions policy to the Barnet Pension Fund for approval by the Committee. The report also includes recommendations for approval by the Committee of new admitted bodies and cessations from the Barnet Pension Fund.

The Policy for admissions is to be amended and the new process would be set up on a 'Pass-through' basis in which admitted bodies can participate in the Fund and allow certain risks to be shared between the letting authority.

The Committee noted that Paragraph 4.3 in Appendix D should be £44.9million and the percentage should be 5%. The Committee noted that there is ongoing legal action between an ex-admitted body and a school regarding payment of a deficit.

The Chair noted that Appendices E to H of the report could be discussed in more detail in closed session. The committee agreed the decisions could be made without the need for discussion in private session.

RESOLVED

- 1. That the Pension Fund Committee noted the progress on outstanding admissions, cessations and bond agreements/renewals.**
- 2. That the Pension Fund Committee approved the admission into the Barnet Pension Fund of Olive Dining (Holly Park School), Olive Dining (Danegrove School), Nourish Contract Catering Ltd (Whitefield School), LBL After School Club (Manorside School) and Harrison Catering Services (Compton School) as detailed in paragraph 1.5.**
- 3. That the Pension Fund Committee approved the recommendation by the LBB Pensions Team in relation to the admission of Tenon into the Barnet Pension Fund, as detailed in Appendix F.**
- 4. That the Pension Fund Committee approved the recommendation by the LBB Pensions Team in relation to the exit credit payments for Caterlink**

(Totteridge Academy), and Caterlink (Holly Park School) as detailed in Appendices G and H respectively.

5. That the Pension Fund Committee approved the new draft admissions policy outlined in appendix E with effect from 1 January 2024

16. PENSION FUND COSTS AND EXPENSES (Agenda Item 16):

The Finance Manager presented his report and Officers advised that it was estimated that the Fund would incur additional costs compared to the previous year. The Committee was advised that this was mainly driven by the work undertaken by the Committee in order to deliver on its various priorities for the Pension Fund.

The committee discussed the exempt appendices in closed session.

RESOLVED

That the Committee noted the scheme costs incurred for the 6 months to 30th September 2023

17. PENSION FUND COMMITTEE WORK PROGRAMME (Agenda Item 17):

RESOLVED

The Pension Fund Committee noted the work programme.

18. MOTION TO EXCLUDE PRESS AND PUBLIC (Agenda Item 18):

A motion was moved to discuss exempt appendices in private session.

19. ANY ITEM(S) THAT THE CHAIRMAN DECIDES IS URGENT (Agenda Item 19):

There were none.

The meeting finished at 9.45 pm