

PENSIONS COMMITTEE 06 OCTOBER 2021

Report title: Lambeth Pension Fund – General Update October 2021

Wards: All

Portfolio: Cabinet Member for Finance and Performance: Councillor Andy Wilson

Report Authorised by: Strategic Director for Finance and Investment: Fiona McDermott:

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REPORT SUMMARY

This paper provides members with an update on several general pensions related matters to have arisen since the last meeting.

FINANCE SUMMARY

There are no direct financial implications arising from the recommendations in this report.

RECOMMENDATIONS

1. That the Committee respond to the recommendations and requests for information from the Pensions Board as asset out at section 2.10.
2. That the remainder of the report, together with the information in the accompanying papers, be noted.

1 CONTEXT

- 1.1 The Pensions Committee is responsible for ensuring that the Fund is properly operated in accordance with all relevant legislation and best practice as advised by the Pensions Regulator, the Local Government Pension Scheme (LGPS), Scheme Advisory Board (SAB), the Ministry of Housing, Communities and Local Government (MHCLG) and the Chartered Institute of Finance and Accountancy (CIPFA), including both financial and administration matters.
- 1.2 The purpose of this report is to update the Committee on a number of pensions related matters to have arisen since the last meeting and of relevance to the Fund, including standing items on the London CIV, the Pensions Board and training opportunities.

2 PROPOSALS AND REASONS

LONDON CIV

Funding and Fee Savings

- 2.1 The most recent London CIV (LCIV) Business Update call took place on 16 July 2021, during which updates were provided on their current fund launch activity and new fund launch pipeline; the current fund offering is attached at Appendix One for information. The next update meeting takes place on 17 September, any relevant updates will be presented to the Committee verbally.
- 2.2 As at 30 June 2021 the LCIV had £13.5bn of assets under direct management, including commitments, and a further £13.2bn held in 'pooled' passive arrangements managed by Legal and General and BlackRock.
- 2.3 The Lambeth Fund is a key stakeholder in the LCIV, with approximately £1.21bn or 65% of the Fund's active assets invested directly in the pool as at 30 June 2021, one of the highest proportions of total Fund assets compared to other London boroughs.
- 2.4 In early September the LCIV published annual fee savings attributable to clients for the financial year 2020/21; gross savings, being the difference between the estimated expense if investing outside the LCIV and the actual expenses incurred within the pool were £1.27m. Net savings, after accounting for LCIV management fees and service charges were £938k (£831k gross and £592k net in 2019/20).

Governance Update

- 2.5 The LCIV AGM took place on 15 July 2021, the first to be held on a hybrid basis with most attendees joining online. The LCIV's Annual Review and statutory accounts were presented to members (attached at Appendix Two for information), with discussions on developing relationships with client funds including exploring different investment solutions, developing the LCIV's approach to responsible investment, and on financial effectiveness. The AGM also discussed an update to the Medium-Term Financial Plan and the iterative consultation to take place during September to December to finalise the plan in discussion with shareholders; this will then form the

basis for the 2022/23 Annual Budget and objectives to be agreed by shareholders at the General Meeting in January 2022.

Staffing Update

- 2.6 LCIV have appointed Rob Treich as Head of Public Markets who joined in early September and have also appointed a Head of Public Funds Accounting, the individual taking up post in late October.

PENSIONS BOARD

- 2.7 The Board last met on 12 August 2021 and considered the quarterly administration performance report for the Fund as well as the latest risk register. Updates included:

- statistics on key administrative workflows in the latest quarter, usage of the Fund website and the Member Self Service platform, and details of member complaints and responses in the period;
- the latest on McCloud, Guaranteed Minimum Pensions (GMP) reconciliation and rectification, and exit pay reform; and
- the results of the Pensions Regulator's [2020/21 Public Service Governance and Administration Survey](#)

- 2.8 As set out in the Terms of Reference of both the Committee and Board, and as a means of ensuring the good governance of the Fund, the Committee will work with and receive and consider reports from the Board and ensure that appropriate actions are undertaken as required. The Board can request information from the Committee and make recommendations which should be considered, and a response made to the Board on the outcome within a reasonable period of time.

- 2.9 The agreed process with the Committee and the Board is for these recommendations to be made via officers and raised at the next available meeting where appropriate so that the response or resolved action can be recorded in the meeting minutes.

- 2.10 Following its August meeting, the Board have requested the following information from the Committee:

2.10.1 The Board notes that several of the Fund's managers are currently rated by Mercer as ESG3, the penultimate score in Mercer's proprietary ESG ratings, where managers have made some progress towards ESG integration and/or active ownership but for which there is little evidence that ESG considerations are taken into consideration in valuations and investment processes. Can the Committee explain what actions the Fund is taking to mitigate the financial and reputational risks from investing in these managers, and what consideration is being given to investing in funds with a higher ESG rating instead?

2.10.2 Can the Committee comment on the Fund's continued exposure to indirect fossil fuels given its agreement with the Board's recommendation to divest

from indirect investments in fossil fuels, and explain what actions are being taken to eliminate the Fund's exposure?

- 2.10.3 Will the Committee commit to agreeing an updated Statement of Investment Beliefs before year-end that encapsulates its climate-related beliefs and sets the direction for the Fund's future investment strategy?

- 2.11 The next meeting of the Board will take place on 20 October 2021.

EXTERNAL AUDIT

- 2.12 The Fund external audit is currently underway, and officers have now been presented with the final Audit Strategy Memorandum which was unavailable for the March meeting item on the Audit Plan. This is attached at Appendix Three for information purposes.

- 2.13 The auditors are expecting to have completed their audit and be in a position to report their final results to the Corporate Committee on 25 November 2021.

TRAINING UPDATE

- 2.14 A selection of external conferences, workshops and other training opportunities has been shared with members at Appendix Four; these events have been specifically identified as relevant to the Fund and/or members' interests. Should members decide to attend any of the sessions or have identified other training they would like to attend, please inform the Fund's Governance and Compliance Officer Sarah Hargraves (SHargraves@lamebth.gov.uk) so that member training records can be updated.

- 2.15 These sessions form part of the main training offer to members; other sessions arranged by fund managers or advisors will be held throughout the year and outside of formal meetings in line with the Training Plan (addressed elsewhere in this agenda). It is vital that members continue to develop and maintain their knowledge of the overall LGPS landscape to fulfill statutory obligations and compliance requirements.

3 FINANCE

- 3.1 There are no direct financial implications arising from the recommendations in this report.

4 LEGAL AND DEMOCRACY

- 4.1 The Lambeth Pension Fund is run in accordance with the Local Government Pension Scheme Regulations 2013 enacted along with other Regulations under the Superannuation Act 1972 and the Public Service Pension Act 2013, and is for the benefit of Council employees and outside organisations which have entered into an agreement with Lambeth to provide pensions for their staff.

4.2 The Pension Committee must be mindful of their fiduciary duty to obtain the best possible financial return on the investments it administers within the investment strategy framework.

4.3 There are no additional comments from Democratic Services.

5 CONSULTATION AND CO-PRODUCTION

5.1 Not Applicable.

6 RISK MANAGEMENT

6.1 Investment decisions involve taking risks that Members of the Committee should always bear in mind. Generally, risk is taken to mean the variability of returns. Investments with greater risk must usually promise higher returns than more 'stable' investments before investors will buy them. Members must consider the risk/reward trade-off; generally, the higher the potential return expected the higher the associated risk. Members in their capacity as Trustees bear that risk.

7 EQUALITIES IMPACT ASSESSMENT

7.1 None for the purposes of this report.

8 COMMUNITY SAFETY

8.1 None for the purposes of this report.

9 ORGANISATIONAL IMPLICATIONS

Environmental

9.1 None for the purposes of this report.

Health

9.2 None for the purposes of this report.

Corporate Parenting

9.3 None for the purposes of this report.

Staffing and accommodation

9.4 None for the purposes of this report.

Responsible Procurement

9.5 None for the purposes of this report.

10 TIMETABLE FOR IMPLEMENTATION

10.1 Not Applicable.

AUDIT TRAIL				
Consultation				
Name/Position	Lambeth directorate/division or partner	Date Sent	Date Received	Comments in para:
Councillor Andrew Wilson, Cabinet Member	Finance and Performance	20.09.2021	23.09.2021	
Fiona McDermott, Strategic Director	Finance and Investment	20.09.2021	23.09.2021	
Christina Thompson, Director of Finance	Finance and Investment	20.09.2021	20.09.2021	
Hamant Bharadia, Assistant Director of Finance	Finance and Investment	20.09.2021	23.09.2021	
Andrew Pavlou, Legal Services	Legal and Democratic Services	20.09.2021	21.09.2021	
Marianna Ritchie, Democratic Services	Legal and Democratic Services	20.09.2021	21.09.2021	

REPORT HISTORY	
Original discussion with Cabinet Member	N/A
Report deadline	15 September 2021
Date final report sent	23 September 2021
Part II Exempt from Disclosure/confidential accompanying report?	No
Key decision report	No
Date first appeared on forward plan	N/A
Key decision reasons	N/A
Background information	N/A
Appendices	<ul style="list-style-type: none"> • Appendix One – LCIV Current Fund Offering – June 2021 • Appendix Two – LCIV Annual Review 2021 • Appendix Three – Audit Strategy Memorandum • Appendix Four – Suggested Training Q4 2021 – Q1 2022.