LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE
Held in the Conference Hall, Brent Civic Centre on Wednesday 21 February 2024 at 6.00 pm

PRESENT: Councillor Mitchell (Vice-Chair) and Councillors Choudry, Hack, Kansagra and Elizabeth Bankole (Non-Voting Co-Opted Member).

Also present: Also present: David Ewart (Independent Chair – Brent Pension Board).

1. **Apologies for Absence and Clarification of Alternate Members**

The Committee received apologies of absence from Councillor Johnson (Chair) and Councillors Kennelly and Miller. As Councillor Johnson was absent from the meeting, Councillor Mitchell assumed chairing responsibilities as Vice-Chair of the Sub-Committee.

2. **Declarations of Interests**

None declared.

3. **Minutes of the Previous Meeting**

RESOLVED: That the minutes of the previous meeting held on 4 October 2023 be approved as an accurate record of the meeting.

4. **Matters Arising (If Any)**

None.

5. **Deputations (if any)**

No deputations were received.

6. **H2 2023 Investment Monitoring Report**

Kenneth Taylor (Hymans Robertson LLP) presented the report, which outlined the performance of the Brent Pension Fund over the second half of 2023. Regarding the overall performance of the Fund, the Committee heard that the Fund had posted a positive return over the second half of the year, ending the period with a valuation of £1,203.0m up from £1,125.7m at the end of Q2 2023. This translated to a 6% return, 0.4% above the benchmark of 5.6%. When looking at the previous 12 months, the Fund had returned 9.4% which was behind the benchmark of 10.8%. However, it was explained that this was still considered a strong performance given the recent economic landscape. In concluding the discussion on overall performance, the Committee was advised that across the last 3 years the Fund had returned 4.5% against a benchmark of 4.3%, therefore the Fund's performance was positive both in the long-term and short-term.

In discussing the Fund's asset allocations, the Committee noted that the Fund's allocation to UK gilts had increased from £49.7m to £122.1m across the reporting period. Members were informed that this increase was due to rebalancing in which equity investments were sold and the funds reinvested into UK gilts.

In highlighting page 16 of the agenda pack which focussed on the funding position of the Fund, the Committee noted that this information was new and detailed the changes in the funding level from Quarter 1 (Q1) 2022 to Quarter 4 (Q4) 2023. Overall, the funding level had increased from 87% in Q1 2022 to 115% at the end of Q4 2023, with assets now larger than liabilities which was the opposite of the position that the Fund found itself in at Q1 2022, a significant improvement. Members were advised that the Fund currently had a surplus of approximately £150m which was largely due to the value of liabilities decreasing as a result of higher expected future returns of assets.

Concerning manager performance, Kenneth Taylor detailed that, with the exception of property funds, all funds posted positive returns over the previous 6 months. However, when reviewing the previous 12 months the performance of managers was more mixed, with funds such as Capital Dynamics Private Equity performing poorly. Nevertheless, despite the poor performance of some funds, the Committee was informed that these funds comprised of a small percentage of the Fund's overall holdings and therefore the performance of these funds did not have a significant impact on the overall performance of the Fund. In focussing on the top performer, the LGIM Global Equity fund, it was explained that the fund had returned 17.5% over the previous 12 months, which was said to be impressive given the high inflation and rising interest rates. The positive performance of the LGIM Global Equity fund was further compounded by the fact that the Fund held a large percentage of its assets within this holding. Furthermore, members heard that the BlackRock UK Gilts Over 15 years fund was the second largest contributor to the Fund's positive performance over the second half of 2023.

Following the presentation of the report, the Chair invited members to raise any questions or concerns, with queries and responses summarised below:

- In response to a query as to why there were no figures relating to the performance of the infrastructure funds over the previous 6 months, members were advised that, although the figures were available, they were omitted from the report as short-term monitoring could result in misleading assumptions as these assets were long-term investments.

Members welcomed the report and, with no further issues raised, thanked Hymans Robertson LLP for their presentation. Consequently, the Committee **RESOLVED** to note the report.

7. **Pass-Through Policy**

John Smith (Pensions Manager, Brent Council) introduced the report, which outlined the preferred arrangements for Contractors participating in the Brent Pension Fund. The Committee noted that Brent Pension Fund's actuary, Hymans

Robertson, had prepared a discussion document outlining the principles, benefits and risks of using ‘pass-through’ for its admission agreements which included a comparison with the current ‘traditional’ approach.

In providing an overview of the proposal, John Smith explained that outsourced LGPS members had a right to remain within the LGPS scheme and therefore an agreement was required between the Letting Authority and the Contractor regarding factors such as the Contractor contribution rates, bonds and cessation fees. Due to the need to determine the above elements, the conventional approach, which passed investment risk to the contractor, resulted in high consultation fees, more expensive contracts for the Letting Authority and a slower overall process. Thus, to improve this process, it was proposed to introduce a ‘pass-through’ policy which passed significantly less pension risk to the Contractor and reduced the costs of participation. This was largely due to the Contractor’s contribution rate being equal to the Letting Authority’s contribution rate and Contractors not being liable to pay cessation fees, which reduced uncertainty for Contractors seeing as they were not exposed to potential volatile market conditions, which was said should improve the competitiveness of the tendering process for LGPS Letting Authorities.

After the introduction of the report, the Committee welcomed Douglas Green (Hymans Robertson LLP) to the meeting, who provided an analysis of the risks and benefits of pass-through in addition to outlining why the policy was being proposed, which is summarised below:

- In outlining the current approach of the Fund regarding outsourced contracts, detailed in Appendix 1 of the report, Douglas Green emphasised the number of onerous administrative steps which were required for outsourced contracts, many of which concerned a small number of employees. Members noted that given that outsourced contracts tended to involve a relatively small number of employees, the administrative and consultative steps required for the current method outweighed the potential risks presented by pass-through.

- The main risks of the proposed pass-through policy included:

    - The Letting Authority being responsible for a potential cessation debt at the end of contract if the Contractor contribution rate was too low, although any debt tended to be a small sum given the size of outsourced contracts.

    - Loss of a potential exit credit at the end of contract for the Contractor if their contribution rate was too high.

    - Assets and liabilities remaining on accounting balance sheet of the Letting Authority, although this would occur if staff remained within the Letting Authority and therefore this risk would be borne by Letting Authorities anyway.

- The main benefits of the proposed pass-through policy included:

- ➢ The possibility of better contract negotiation terms for Letting Authorities as Contractors often increased the price of contracts due to uncertainty and the investment risk being passed to the contractor.

- ➢ No potential cessation debt to pay at the end of the contract by the Contractor if their contribution rate was too low.

- ➢ Reduced administrative costs for the Contractor as there was no requirement for a market risk bond, which could lead to better contract terms for Letting Authorities.

- ➢ Greater certainty of Contractor contributions as a flat contribution rate was given at the start of the contract.

In concluding, Douglas Green stated that Hymans Robertson deemed that the benefits of the pass-through policy outweighed the potential risks. Given that the proposed policy would become the default for outsourced contracts if recommended by the Committee and approved the General Purposes Committee, members were further informed regarding the practical implementation of the policy, which is detailed below:

- Default pass-through would apply to all Contractors with fewer than 15 transferring members. For new Contractors with 15 or more transferring members, the Administering Authority would agree the most suitable arrangement with the Letting Authority.

- The Letting Authority retained all risks, except for those brought on by the contractor, such as the award of unreduced early retirement unrelated to ill-health.

- The contribution rate would always be set equal to the in-force primary rate of the Letting Authority, which could change at each triennial valuation.

- A bond could be inserted for “high-risk” contracts at the Fund’s discretion or if required by the Letting Authority.

- Liabilities (with corresponding fully funded assets) would be assigned to the Contractor and tracked for their period of participation. However, for funding and accounting purposes, the Contractor assets and liabilities would be pooled with the Letting Authority.

Following the overview of the pass-through policy, the Chair welcomed questions from the Committee. Questions and responses are summarised below:

- Regarding whether there was a precedent for the pass-through policy, members were advised that the majority of pension funds were now using pass-through to some extent, with academy schools being the single biggest driver for the increased use of pass-through as the Department for Education (DfE) had recently extended their Academy Guarantee to cover pass-through which meant that the Fund could claim expenses back from the DfE if an academy were to cease operating.

- In response to a question relating to the impact of the policy for Brent, it was detailed that contracts were likely to be cheaper given the reduced risk borne by Contractors. Additionally, officer time would be saved which in turn resulted in cost-savings and employer contributions could be received sooner due to no longer needing to determine contribution rates, bonds and cessation fees. Furthermore, the Committee heard that it was best to view the pass-through policy as sharing the risk between the Letting Authority and Contractor, with risk being retained by the Letting Authority rather than increased as the Letting Authority would bear the risk if the employees remained within the Letting Authority anyway.

- In explaining the arrangements for employees when contracts expired, the Committee noted that if the contract was not re-let the employees would return the Letting Authority, which occurred already and therefore there was no change in process. Moreover, if the contract was re-let the Fund would arrange for the employees to move to the new Contractor under the new policy.

- Concerning the contribution rates of Contractors, the Committee was informed that contribution rates were currently bespoke for every contractor which resulted in expensive consultation fees and slow processing times. However, under pass-through the contribution rate was pegged to the contribution rate of the Letting Authority, whether that be the Council or a school. At the end of the contract, if the contract was re-tendered, the new Contractor would pay the same contribution rate of the Letting Authority at the time of the award of the contract.

- Members were reassured that regardless of the contribution rate of Contractors, members' pension benefits were not impacted.

- In clarifying the requirement for legal advice outlined in the next steps, it was detailed that officers were satisfied with the general approach of pass-through, but if the policy was to be approved by the General Purposes Committee, officers would seek legal advice to finalise the details of the policy. In reassuring members, officers explained that conversations had occurred with colleagues in other boroughs where pass-through was widely adopted, in which they expressed satisfaction with the policy.

- Following approval by the General Purposes Committee, the Committee noted that the Fund would be contacting all employers (Letting Authorities) to explain the benefits, risks and key differences between pass-through and the 'traditional' approach currently used.

With members happy with the proposed pass-through policy, the Committee **RESOLVED** to:

(1) Note that the proposed pass-through approach would be the default for admission agreements in line with the principles as specified in the report.

(2) Recommend that the proposed pass-through approach, detailed in section 2.1 of the report, is approved by the General Purposes Committee at its next meeting.

8. **DLUHC Consultation Outcome on LGPS Investments and TPR General Code of Practice**

Sawan Shah (Head of Finance, Brent Council) presented a report that summarised the outcome of the consultation on proposals relating to the investments of the Local Government Pension Scheme (LGPS) in addition to the updated The Pensions Regulator (TPR) General Code of Practice. As the Committee had already considered this matter in a recent meeting, members were informed that the government intended to proceed with the majority of the proposals previously discussed, which included:

- A March 2025 deadline for the pooling of assets, however this was now on a ‘comply or explain’ basis.

- Revised guidance to encourage Funds to invest a 10 per cent allocation to private equity, however this was an ambition and not mandatory.

- A requirement in guidance to set a training policy for pensions committee members and to report against the policy.

Regarding next steps, it was explained that the Fund was awaiting further details on how the proposals would be formalised in LGPS regulations and/or statutory guidance. The Committee noted that once further guidance had been received another update would be provided.

In moving to discuss the updated TPR General Code of Practice, the Committee was informed that the new Code was expected to come into force on 27 March 2024, three years after the initial consultation in 2021. The purpose of the updated Code was to consolidate 10 previous TPR Codes into one single Code. As officers were currently reviewing the new requirements, members heard that a more detailed update would be provided at the next Committee meeting, currently planned for June 2024, although confirmation of meeting dates for the next municipal year would be confirmed at the Annual Council Meeting in May 2024.

With no further comment, the Chair thanked officers for the report and the Committee **RESOLVED** to note the outcome proposals relating to the investments of the LGPS and the update on The Pensions Regulator General Code of Practice.

9. **Administering Authority and Employing Authority Discretions**

John Smith (Pensions Manager, Brent Council) introduced the report, which outlined Brent’s Administering Authority Discretions and a blank template for Employing Authority Discretions which could be used as a framework by all the employers in the Pension Fund to develop their own policies. In providing a more detailed explanation of discretions, John Smith stated that there were two discretions, administering authority discretions, determined by Brent Council, and employing authority discretions. The Committee was advised that there were three categories of discretions:

- A relatively small number that were mandatory and a policy must be published.

- A slightly larger number that were mandatory but there was no requirement to publish a policy.

- The largest group which comprised of non-mandatory (optional) discretions.

Members noted that it was a legal requirement to publish the required mandatory policies and it was considered best practice to publish a policy outlining how administering/employing authorities intended to exercise its discretions, as it ensured consistency in decision making and helped to guard against challenges and appeals from discontented parties, in addition to demonstrating good governance and providing clarity to members of the scheme. However, it was reiterated that care must be taken when determining discretions as once determined, the freedom of the relevant authority was diminished. Therefore, discretions were often prefixed with words such as ‘may’, ‘only in exceptional circumstances’ and ‘each case considered on its merits’ to maximise the freedom that authorities had in relation to discretions. In finalising, John Smith explained that employing/administering authorities could change their policy from time-to-time in response to changes in legislation or in the light of experience.

Following the introduction of the report, the Chair welcomed questions and contributions from members, with the subsequent discussion summarised below:

- In response to a request for examples of when discretions could be used, members were advised that a list of examples was provided in Appendix 1 of the report, which included issues related to early and flexible retirements, the ’85 year rule’ and the extension of the notice period required to draw benefits before normal pension age.

- The Committee was informed that it was important to codify the day-to-day operations of how pensions related matters were handled, such as treating cases with due care and sensitivity, in addition to consolidating operational elements into a single document to adhere to best practice guidance.

With no further comments, the Committee **RESOLVED** to:

(1) Approve Brent’s Administering Authority Discretions as contained in Appendix 1 of the report.

(2) Note the Employing Authority Discretions Template attached in Appendix 2 of the report together with the Guidance note included in Appendix 3 of the report.

10. LAPFF Engagement Report

George Patsalides (Finance Analyst, Brent Council) presented a report that updated the Committee on engagement activity undertaken by the Local Authority Pension Fund Forum (LAPFF) on behalf of the Fund during Quarter 3 (Q3) and Quarter 4 (Q4) 2023. It was explained that the partnership with LAPFF demonstrated the Fund’s commitment to Responsible Investment (RI) and utilising engagement as a way to achieve its objectives.

In summarising LAPFF's engagement activity, the Committee noted the following:

- In June 2023, the Department of Business and Trade had investigated a number of companies in breach of wage floor requirements, which included listed firms such as WH Smith, Marks & Spencer, Argos and Whitbread, impacting over 6000 employees. In a letter to these four companies, LAPFF had requested details outlining how such incidents occurred, the actions taken to address these breaches and how the breaches would be prevented in the future. All four firms submitted prompt responses to LAPFF, stating that the breach was due to a payroll error, with LAPFF continuing to monitor and approach companies found to be in transgression of labour laws.

- Water companies were facing considerable reputational risks and regulatory scrutiny surrounding their environmental practices. Given that water companies were effectively regional monopoly suppliers subject to environmental and economic regulation, there were considerable regulatory and reputational risks as a result of malpractice. Thus, LAPFF Chair, Cllr Doug McMurdo, met with the Chair of Severn Trent to discuss the issues currently facing the industry, welcoming the news that the water supplier was ahead of its targets on reducing overflows, as well as refining its long-term plans to address climate change, such as capturing emissions from the sewage treatment process. Despite significant negative publicity surrounding sewage leaks, LAPFF continued to press water suppliers to advance their plans to address the environmental implications of their operations.

- LAPFF executive Heather Johnson met with German technology firm SAP to discuss contingency planning for adverse impacts of AI, including the avoidance of discrimination of legally protected characteristics during hiring processes. LAPFF continued to hold technology firms accountable to ensure that appropriate frameworks and safeguards were in place to mitigate the risks posed by innovations.

After the conclusion of the update, the Chair opened the floor for questions and comments, with contributions summarised below:

- In highlighting the large discrepancy between the number of companies contacted and the relatively small number of tangible improvements and action taken, members queried the reasoning behind the discrepancy between engagement activity undertaken by LAPFF and the outcomes achieved. In response, the Committee was advised that simply getting a response from companies, some being multi-national conglomerates, was an achievement in itself given the size of these organisations. Moreover, it was emphasised that change was often slow and piecemeal, with LAPFF ensuring that pension funds were represented and held a small degree of influence over the direction of change.

- In discussing the collective lobbying power of pension funds and the collaborative opportunities available, it was explained that collective lobbying on behalf of pension funds was LAPFF's main purpose. Additionally, the Committee noted that LAPFF held regular meetings throughout the year which provided further updates on their work, with members encouraged to contact officers if they were interested in attending these meetings.

- Regarding Brent's influence and role in LAPFF, the Committee was informed that LAPFF was councillor led, the Chair of LAPFF being Cllr McMurdo form the Bedfordshire Pension Fund, with the overall strategy set by members at the Annual Conference.

In commending the report and welcoming the update, the Committee **RESOLVED** to note the report.

11. **Training Update**

George Patsalides (Finance Analyst, Brent Council) provided the Committee with an update regarding the provision on the LGPS Online Learning Facility (LOLA) which was provided by the Fund's actuary Hymans Robertson. Members were informed that all logins should have been received and progress made in line with the learning schedule attached as Appendix 3 of the report. The importance of completing the training in line with the expected schedule was reiterated to ensure that the Fund adhered to best practice guidance.

Following the introduction of the report the Chair invited members to ask any questions, with questions and responses summarised below:

- The Committee was advised that the training was mandatory, applying to both Pension Fund Sub-Committee and the Pension Board members.

- Members noted that the training could be completed in any order, although the learning schedule attached as Appendix 3 of the report was designed to align with events in the financial year, such as year-end, and thus moved chronologically.

- It was detailed that the training included a mixture of presentations, podcasts, briefings and videos, with a multiple choice end of module test required to be completed to finish each module.

Having endorsed the training plan provided, the Committee **RESOLVED** to note the report and continue the learning programme as outlined in the training timetable.

12. **Minutes of Pension Board - 8 November 2023**

The Sub-Committee welcomed Mr David Ewart (Independent Chair - Pension Board) to the meeting to give an overview of the Pension Board's last meeting. Members were informed that the role of the Pension Board was to assist the Sub-Committee in the efficient management of the Fund and in monitoring administration service quality for scheme members. The Board's membership comprised of representation from both Scheme Members and Employers, in addition to Brent Council.

Regarding the November meeting, Mr Ewart explained that the majority of the meeting concerned the Pensions Administration Update, in which the Board considered the Pension Administration Performance Report, in addition to reviewing the Fund's Risk Register and monitoring Key Performance Indicators (KPI's) to ensure the implementation of the most suitable indicators. In concluding, Mr Ewart highlighted the applicability of the LOLA training plan, discussed in the previous agenda item, given that it covered key remits of both the Pension Board and Pension Fund Sub-Committee.

The Chair thanked Mr Ewart for the update provided and with no further issues raised, it was **RESOLVED** to note the minutes from the Pension Board held on 8 November 2023.

13. **Exclusion of the Press and Public**

At this stage in the meeting the Chair advised that the Sub Committee needed to move into closed session to consider the final two items on the agenda and it was therefore **RESOLVED** to exclude the press and public from the remainder of the meeting as the reports and appendices to be considered contained the following category of exempt information as specified in Paragraph 3, Schedule 12A of the Local Government Access to Information Act 1972, namely:

"Information relating to the financial or business affairs of any particular person (including the Authority holding that information)."

14. **Diversified Growth Fund**

Sawan Shah (Head of Finance, Brent Council) presented a report that provided analysis of the LCIV Diversified Growth Fund held by the Fund. The Committee noted that the recommendations were a result of ongoing monitoring of the Diversified Growth Fund and ambitions outlined in the recently revised Investment Strategy. In considering the report, members discussed issues relating to asset allocation, the size of the current investment in the Diversified Growth Fund and the proposals for reinvestment.

As a result of the discussion, the Committee **RESOLVED** to:

(1) Agree to rebalance the Fund's portfolio by reducing the allocation to the LCIV Diversified Growth Fund and re-invest the proceeds in line with paragraph 3.7 of the report and phase 1 of the implementation plan, outlined in Appendix 1 of the report.

(2) Note the options available to the Fund to further reduce the allocation to the LCIV Diversified Growth Fund as set out in paragraph 3.8 of the report and to endorse option 1 as the preferred solution in line with paragraph 3.9 of the report.

15. **London CIV Update**

Sawan Shah (Head of Finance, Brent Council) introduced the report, which updated the Committee on recent developments regarding Brent Pension Fund investments held within the London CIV. In this iteration of the London CIV Update, the Committee received the quarterly investment reviews for the quarters ending 30 September 2023 and 31 December 2023. In addition to the quarterly investment reviews, subjects such as changes in the leadership at London CIV and revised recommendations regarding London CIV investments were considered by members.

As no further concerns were raised, the Committee **RESOLVED** to note the report.

16. **Any Other Urgent Business**

As this would be their last meeting prior to entering retirement, on behalf of both the Brent Pension Fund Sub-Committee and Pension Board, Sawan Shah (Head of Finance, Brent Council) thanked Douglas Green (Hymans Robertson LLP) for their support and dedication to the Fund since becoming the Fund's actuary in 2012. Mr Green was said to have played an integral role in improving the overall position of the Fund over the previous decade, with everyone associated with the Fund wishing Mr Green a happy and healthy retirement.

The meeting closed at 7:52pm

COUNCILLOR M MITCHELL
Vice-Chair