

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 6.30 P.M. ON THURSDAY, 21 JULY 2011

C1, 1ST FLOOR, TOWN HALL, MULBERRY PLACE

Members Present:

Councillor Anwar Khan (Chair)
Councillor Craig Aston
Councillor Zenith Rahman
Councillor Abdal Ullah
Councillor Ahmed Adam Omer

Other Appointed Members Present:

Frank West

Officers Present:

Oladapo Shonola	– (Chief Financial Strategy Officer, Resources)
Peter Hayday	– (Interim Service Head, Financial Services, Risk and Accountability)
John Williams	– (Service Head, Democratic Services, Chief Executive's)
Antonella Burgio	– (Democractic Services)

1. ELECTION OF VICE-CHAIR FOR THE MUNICIPAL YEAR 2011/2012

Councillor Abdal Ullah nominated Councillor Zenith Rahman to serve as Vice-Chair of the Committee for the remainder of the Municipal Year. The nomination was seconded by Councillor Ahmed Omer

There being no further nominations, it was

RESOLVED

That Councillor Zenith Rahman be elected Vice-Chair of the Pensions Committee for the remainder of the Municipal Year 2011/12.

2. APOLOGIES FOR ABSENCE

No apologies for absence were received.

3. DECLARATIONS OF INTEREST

No declarations of personal or prejudicial interests were made.

4. UNRESTRICTED MINUTES

The Chair **MOVED** and it was

RESOLVED

That the unrestricted minutes of the ordinary meeting of the Pensions Committee held on 18 November 2010 be approved and signed by the Chair, as a correct record of the proceedings.

5. PETITIONS

Nil items.

6. UNRESTRICTED REPORTS FOR CONSIDERATION**7. PENSION COMMITTEE TERMS OF REFERENCE, MEMBERSHIP AND QUORUM**

John Williams, Service Head, Democratic Services, introduced the report which set out the terms of reference, membership and quorum of the Pensions Committee for the municipal year 2011/12.

Members were asked to note that, this year, the membership of the Committee had been determined in accordance with the Constitution Working Party's recommendations which had been adopted by Council in April 2010, that:

- political proportionality arrangements be upheld;
- 1 Admitted Body and 1 Trade Union representative be invited to join the Committee on a non-voting basis. Members were informed that nominations would be sought from amongst the admitted bodies and trade unions.

Members were also asked to note the schedule of quarterly meetings to be held during the municipal year.

RESOLVED

That the report be noted

8. COMPOSITION OF THE PENSION FUND INVESTMENT PANEL

On 28 July 2004, the Pensions Committee established an Investment Panel to fulfil pension fund regulations. These required that councils have in place arrangements for monitoring the investment activities of professional fund managers to ensure that proper advice is available on investment issues.

Peter Hayday, Interim Service Head, Financial Services, Risk and Accountability introduced the report which informed Members of the current arrangements and asked them to approve that the arrangements be continued.

RESOLVED

1. That the Investment Panel be established
2. That the membership of the Investment Panel comprise: all Members of the Pensions Committee or their designated deputies, an investment professional as Chair, an Independent Financial Advisor, the Corporate Director of Resources or his designated deputy.
3. That up to 2 Trade Union representatives or their designated deputies be appointed to attend Investment Panel meetings as observers
4. that the terms of reference of the Pension Fund Investment Panel as circulated at Appendix 1 of the report be approved

9. REPORT OF INVESTMENT PANEL FOR QUARTER ENDING 31 DECEMBER 2010

Peter Hayday, Interim Service Head, Financial Services, Risk and Accountability provided the following background to local government pensions. The Council's pension fund was governed by Local Government Pension Fund rules. In common with other local authorities, it was anticipated that, in the long term, payments from the fund would exceed its assets (hence the Government's Hutton enquiry). To address the deficit position, 3 options were available:

- Increase employer contributions
- Increase employee contributions
- Improve investment return from the fund (this option would be difficult in the present unfavourable economic conditions)

Funds held by the London Borough of Tower Hamlets Pension Fund (LBTHPF) were divided amongst 7 Investment Managers and the Pensions Committee received advice on how it should be invested.

Members were referred to Table 2 of the report, which indicated how the Pension Fund was distributed in the quarter ending December 2010, and Table 3, which indicated fund manager investment performance relative to benchmark in the quarter to December 2010, over 1 year, 3 years and 5 years. The Committee was advised that since pensions were long term investments, short term performance was not a good indication of overall performance. Members were recommended to assess how investment managers had performed over half yearly periods, to analyse trends and to look for positive movements. If lack of performance was observed, the fund advisors (Hymans Robertson) would advise what options were available and their implications for LBTHPF.

Paragraph 7.3 informed the Committee that new absolute return mandates (short-term unrestricted investments for the purpose of preserving/enhancing overall fund value during different assets cycles) were added to the portfolio in quarter 1, 2011. It was agreed that the allocation to absolute returns would be 10% of the LBTHPF assets.

In response to questions, the Committee received the following information:

- At the last actuarial assessment in 2010, the sum of LBTHPF deficit was £300m.
- The Council agreed, as part of its budget setting process, to increase employer contributions over the next 3 years by £1.25m. From this it anticipated that the deficit would be closed over the period of the next 20 years. This position would be reviewed at the next actuarial review in March 2013.
- The Government intended to pursue the Hutton Review to mitigate the projected rise in the cost of public sector pensions to taxpayers.
- In regard to whether the differences in projected and actual fund performance would be smoothed over the course of the financial year, the Committee was informed that fund monitoring would take place to track that actual performance followed projected performance as closely as possible.

RESOLVED

That the report be noted.

10. REPORT ON USE OF DERIVATIVES

The report was presented, by Oladapo Shonola Chief Financial Strategy Officer, on the recommendation of the Audit Commission, to ensure that the Committee was aware of the possible issues of the fund managers' performance, and were able therefore, to interrogate fund managers such that they could satisfy themselves on the risks that the fund might be exposed to. The report illustrated how derivative contracts were used by investment managers to minimise the exposure of pension fund assets to currency risk and to ensure optimum portfolio efficiency.

It was noted that derivative trading was not used for profit purposes but to limit risk of loss due to currency fluctuations and that the risk range was defined to within certain limits. The derivatives were solely currency derivatives.

In response to questions concerning what alternative back up there was, in accounting terms, to mitigate risks; Members were informed that investment in foreign bonds carried a double risk. However Derivatives Managers used by the Council were not trading in foreign currencies but hedging their position to minimise the effect of currency fluctuations.

RESOLVED

That the report be noted.

11. REPORT ON GOVERNANCE COMPLIANCE AND STATEMENT OF INVESTMENT PRINCIPLES COMPLIANCE

The report was presented under constitutional provisions for special circumstances and urgency as, due competing priorities; it had not been possible to publish the report within the statutory publication deadline. It was necessary that the Committee consider the report and the subject of the report to be agreed before agreeing the account fund, as a further meeting was not scheduled until 11 November 2011, and there was some risk that the Auditor might require the documents.

The Committee was advised that regulations required:

- that the Council to keep under review the written statement prepared and published
- that a statement of investment principles be produced and reviewed and where necessary revised
- where there was a material change in the Council's policy, then the review and revision must take place within six months of the change and the revised statement must be published.

Members were informed that the statement had been revised now incorporating stronger controls; and investment principles had been reviewed and reduced from ten to six.

Members were asked to note the governance compliance statement set out at appendix 1. In regard to the 2 principles where the Council had been assessed as 'partly compliant', the Committee was informed that, in fact, there had been full compliance since admitted bodies had been invited to participate in accordance with governance principles.

RESOLVED

1. That the revised Governance Compliance Statement at Appendix A be approved.
2. That the revised Statement of Investment Principles at Appendix B be approved.

12. ANNUAL PENSION FUND ACCOUNT

This item was deferred to the next scheduled meeting.

Members were informed that the draft account had been passed to the Council's Auditors and was expected to be signed off at the beginning of September.

A copy of the draft report, once passed by the auditors, would then be circulated to Members of the Committee who were invited to submit any questions to the Service Head, Financial Services, Risk and Accountability.

13. ANY OTHER UNRESTRICTED BUSINESS CONSIDERED TO BE URGENT

The Chair agreed to receive questions on LBTHPF from the Committee. Concerning whether Councillors who contributed to the Council's pension scheme should receive an annual statement, the Committee was advised by the Service Head, Financial Services, Risk and Accountability that all members of the scheme should receive an annual statement and agreed to investigate on behalf of any Councillor who had statements outstanding.

Action Service Head, Financial Services, Risk and Accountability

Concerning what the Council was doing to facilitate early take up of pensions resulting from of redundancies, Members were informed that for any who had been granted voluntary redundancy, cost to the council would have informed the basis of the decision whether or not to grant the voluntary redundancy request. Where voluntary (pensionable) redundancies were given, the Council was required to make a lump sum payment into the pension fund to reflect the additional cost of pension being drawn down earlier. Therefore offering earlier (pensionable) redundancies was more costly.

Concerning whether there had been any assessment of who had taken or who might take redundancy in the past year, Members were informed that the approximate value was £10m. Redundancies made this year were taken from reserves set aside for this purpose and also from general fund budgets.

The Council was presently making an assessment for future redundancies in the next 3 year period. The Council had identified a gap and was assessing what the implications of closing this gap were at present.

The Chair informed the Committee that training on Pensions Committee matters was available and details would be circulated by the Chief Financial Strategy Officer.

The meeting ended at 7.29 p.m.

Chair, Councillor Anwar Khan
Pensions Committee