LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 7.35 P.M. ON THURSDAY, 14 NOVEMBER 2013

COMMITTEE ROOM C1, 1ST FLOOR, TOWN HALL, MULBERRY PLACE, LONDON E14 2BG

Members Present:

Councillor Zenith Rahman (Chair)	
Councillor Judith Gardiner	
Councillor Ann Jackson (Vice-Chair)	
Frank West - Non-Voting Member (Trade Union)	Non-voting Member Representing Trade Unions
John Gray - Non-Voting Member (Admitted Body)	- Non-Voting Member (Admitted Body)

Admitted Bodies, Non-Voting Members Present:

Frank West - Non-Voting Member (Trade Union)	–	Non-voting Member Representing Trade Unions
John Gray - Non-Voting Member (Admitted Body)	–	- Non-Voting Member (Admitted Body)

Officers Present:

Ngozi Adedeji	–	(Team Leader Housing Services, Legal Services Chief Executive's)
Anant Dodia	–	(Pensions Manager)
David Galpin	–	(Service Head, Legal Services, Directorate Law Probity and Governance)
Simon Kilbey	–	(Service Head, Human Resources and Workforce Development)
Kevin Miles	–	(Chief Accountant, Resources)
Oladapo Shonola	–	(Chief Financial Strategy Officer, Resources)
Paul Thorogood	–	(Interim Service Head Finance and HR Development, Resources)
Antonella Burgio	–	(Democratic Services)

COUNCILLOR ZENITH RAHMAN IN THE CHAIR

CHAIR'S ANNOUNCEMENT

The Chair advised that Mr Oladapo Shonola, Chief Financial Strategy Officer and Mr Paul Thorogood, Interim Service Head, Finance and HR Development would be leaving the authority in December. She thanked them for their excellent support to the Committee during their tenure and wished them well in their future ventures.

INTRODUCTIONS
The Chair welcomed guests and officers that were newly appointed to support the Committee. She then invited all to introduce themselves.

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor Oliur Rahman.

The Clerk advised the Chair that Councillor Rahman had also submitted his resignation from the Committee. A Member noted that he had failed to attend all meetings of the Committee in the municipal year and requested that a letter of censure be written by the Chair.

Action by:
Antonella Burgio (Committee Services Officer, Democratic Services)

2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

No declarations of disclosable pecuniary interests were made.

3. UNRESTRICTED MINUTES

The unrestricted minutes of the meeting held on 19 September 2013 were approved as a correct record of proceedings without amendment.

4. UNRESTRICTED REPORTS FOR CONSIDERATION

4.1 2012/13 Local Government Pension Fund Annual Report

The Chief Financial Strategy Officer presented the report. He advised that the draft accounts had been presented for noting at the meeting on 19 September 2013. These were later audited and signed without change by the Council's external auditors. The reports were now presented for approval.

Matters discussed:
A Member noted that Fund membership was 16,000 whilst there were only 5,000 active members. Actuary Mr McKay advised that this was to be expected since the Fund was maturing and also was a matter that needed to be monitored. However the auto-enrolment retention rate was greater than that which had been expected and this would benefit the Fund's cash flow position.

A Member enquired whether the amount necessary to pay back into the Pension Fund was comparable with other local authorities and was advised that the Tower Hamlets pension-fund was situated in the median-range of local authority pension funds in this regard.

It was noted that the Fund's triennial evaluation would be presented to Committee in February 2014

Concerning ethical investment -

- A Co-opted Member enquired whether the Fund contained any holdings in companies abroad (such as those recently publicised in Bangladesh) which had not endorsed the ethical employment accord. He expressed concern that, as a public sector body, the Council should promote ethical investment. He was advised that although Legal and General had investments in Bangladeshi companies, this was a passive mandate fund and formed a small percentage of the Council's overall pension fund portfolio. The Co-opted Member enquired whether Legal and General could be requested to subscribe to the ethical investment accord.
- The Co-opted Member, noting that the top 100 FT companies had been asked to support the living wage initiative, enquired how the Council was supporting this stance through its investments. He was advised that the Council entrusted investment managers to support the Council's investment principles; where critical votes were taken, these managers were required to explain the votes they had made.
- To better monitor manager voting on shareholder issues, a Member requested that the Council consider using the LAPFF best practice guidelines on shareholder engagement when seeking new managers. The Chief Financial Strategy Officer cautioned that if a highly prescriptive approach were taken, the returns could not properly be benchmarked. Not withstanding he agreed that quarterly a high level summary of critical votes taken by investment managers would be reported to the Investment Panel.
- Members' wishes to ensure that the Pension Fund supported ethical modes of investment were noted and it was agreed that this matter would be raised at a forthcoming Investment Panel

RESOLVED:

1. That the pension fund annual report be approved

2. That the statement of investment principles be approved

3. That the pension-fund statement of accounts be approved

4. That the funding strategy statement be noted

5. That the governance compliance statement be noted

Action by:
Paul Thorogood, (Interim Service Head Finance and HR Development, Resources)
Oladapo Shonola, (Chief Financial Strategy Officer, Resources)
Kevin Miles (Chief Accountant, Resources)

4.2 Update on Government Guarantee of Academies Pension Liabilities

Prior to the discussion of the report circulated at agenda item 4.2, the Committee was provided with the following formation concerning the New Local Government Pension Scheme (LGPS):

- The new LGPS would be implemented in 2013-14
- Tower Hamlets' LGPS incorporated 20 admitted bodies and the new scheme would differentially impact each of the admitted organisations. This gave a measure of protection to the scheme.
- The new scheme would save money on the whole, however it also contained a cost management element to ensure scheme costs were capped.

The report was then presented by the Chief Financial Strategy Officer and Actuary, Mr McKay of Hymans Robertson. The Committee was advised:

- That Department of Education guidance at the inception of school academies recommended that these organisations should be treated equitably when setting pensions rates.
- Academy funding was guaranteed by Government for seven years after which deficit liabilities of any failed academy would fall to the relevant pension fund
- At its meeting on 21 February 2013 (minute 4.5 refers) the Pensions Committee considered this matter and agreed a deficit recovery period of 14 years for the amount of deficit attributable to active transferring members and that attributable to deferred pensioner members of the local government pension scheme. This decision did not set a precedent.
- In the absence of a robust guarantee from the Government, application of a 20 year deficit recovery period for academies would adversely affect the pension-fund.
- In July 2013 the Secretary of State for Education issued a statement that there was a guarantee in place to safeguard against bankruptcy. However there were a number of caveats on this guarantee.
- Having considered the guarantee proposed by Government, local authorities were not persuaded that the guarantee was solid.
- Following the statement of July 2013, academies have made additional representations to the Secretary of State and a further Government consultation around proposals for a Government set recovery period is anticipated.

The Committee heard that three TH academies have made representations to Pensions Committee requesting a review of the decision of 21 February 2013. In considering this request the Committee noted the following:

- TH Pension Fund also served a number of other admitted bodies; which do not enjoy the deficit guarantee that the academies are seeking.
- The representations made by the academies were general and did not outline specific benefits that would be achieved.
- Academies were able to choose a number of options, concerning deficit recovery. These were:

    - Pool academies pensions - there are presently only four academies and in the circumstances the pool was not sufficient.
    - Pool with the Council - this presents a possible option. However, its principle contradicts basis on which academies were established (to operate independently of the local authority).
    - Pool contribution rate - and track this later.
    - Administer academies contributions as independent admitted bodies - it was noted that this option provided a shorter deficit recovery period (14 years) and therefore academies would pay less interest and make recovery sooner.
- If academies wished to operate long recovery periods there would be longer risk exposure.
- Government had put in place an upper limit.
- If some academies moved to the Council's contribution rate, they would be required to pay more. It appeared that in requesting a review of the deficit recovery period the schools needed to gain a better understanding of its implications on them individually.
- Risk to the Council would increase as more of academies became established and joined the Pension Fund.
- Most other local authorities had offered a 12 year deficit recovery period therefore TH terms were more favourable.
- The Council did not have a legal obligation to accede to the request to change to the deficit recovery period but had discretion to select a recovery period it felt was appropriate.

The Committee considered the oral and written information and highlighted the following issues:

- Referring to the Parliamentary minute provided at appendix 2, Members were not persuaded that the guarantee was as solid as the Government wished local authorities to believe.
- Already some reports of poor Academy performance were becoming publicised.
- Noting the present economic volatilities, the Committee was not assured that the Treasury would rescue all academies from financial distress should they fail.
- Should an academy become insolvent, all liabilities would fall to all of the admitted bodies within the pension-fund.
- Pooling arrangements were a decision for the academies but these would not affect the recovery period.

The Committee then concluded that extending the deficit recovery period would put the Council and other admitted bodies at greater disadvantage. Therefore, based on the matters discussed and the information provided, the Committee came to a view that the deficit recovery period should remain at 14 years.

RESOLVED:

1. That the content of the report be noted
2. That having considered the representations from the admitted academies in the LBTH Pension Fund, the deficit recovery period remain at 14 years
3. That a letter from the Director of Resources be drafted to the academies in LBTH Pension Fund advising them of the Committee's decision and its reasons.

4.3 Workforce Pension Reform: Automatic Enrolment Update

The Pensions Manager and Service Head Human Resources and Workforce Development presented the report. The Committee was advised that:

- Overall LGPS membership had increased since the introduction of auto enrolment.
- The scheme was targeted at paid workers and contributions were based on whole-time pay rate.
- There was scope for improvement, therefore benefits of THLGPS would be further publicised to encourage further uptake.
- An analysis of uptake data revealed -
  - of those opting out, around 1000 were female,
  - most were in the £20,800 - £34,700 wage range and
  - most were in the 25 to 34 year old age range,
- Additional directorate and ethnicity analyses were being undertaken.
- Under regulations there would be re-enrolment every three years.
- Contributions were subject to tax relief.
- Auto enrolment scheme had been successful and employers contributions have risen accordingly.

RESOLVED:

That the report to be noted

4.4 Report of Investment Panel for Quarter Ending 30 June 2013

The Chief Financial Strategy Officer presented the report and advised that a comprehensive discussion of investment performance had been undertaken at the Investment Panel which preceded the Committee’s meeting. He advised that:

- There had been good performance in the quarter.
- The fund achieved a return of 0.4% above benchmark.
- Investment managers Ruffer and Baillie Gifford had not achieved benchmark in the quarter.
- Asset allocation as outlined at 30 June 2013 was in line with benchmark and with the structural allocation across the portfolio

RESOLVED:

That the report be noted

5. TRAINING EVENTS

The Clerk informed the Committee of forthcoming training events listed in the report and asked that any members interested in attending these events contact her.

RESOLVED:

1. That the forthcoming training events as listed in the report be noted and
2. That expressions of interest be made through the Clerk.

6. ANY OTHER UNRESTRICTED BUSINESS CONSIDERED TO BE URGENT

Nil items.

The meeting ended at 8.46 p.m.

Chair, Councillor Zenith Rahman
Pensions Committee