

**Tower Hamlets Council
Local Government Pension Scheme**

PENSIONS BOARD

**Monday, 31 July 2017 at 10.00 a.m.
MP702, 7th Floor, Town Hall, Mulberry Place, 5 Clove Crescent,
London E14 2BG.**

This meeting is open to the public to attend.

Members:

Chair: John Jones

Vice-Chair: David Stephen Thompson

Stephen Stratton, (Active Fund Members' Representative)

John Gray, (Admitted Bodies Representative for Active Fund Members)

Councillor Dave Chesterton, (Representing Pension Fund Employers)

Minesh Jani, (Representing Pension Fund Employers)

Vacant, (Representing Admitted Bodies Employers)

Contact for further enquiries:

Georgina Wills, Democratic Services.

Tel: Georgina Wills, Democratic Services.

E-mail: Tel: 0207 364 6695. Email:

georgina.wills@towerhamlets.gov.uk

Web: <http://www.towerhamlets.gov.uk/committees>

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Committee
website.



1. **APOLOGIES**
2. **APPOINTMENT OF VICE - CHAIR**
3. **DECLARATIONS OF DISCLOSABLE PECUNIARY INTERESTS**
4. **UNRESTRICTED MINUTES**

To confirm as a correct record of the proceedings the unrestricted minutes of the meeting of the Pensions Board held on 13 March 2017.

5. **SUBMISSIONS FROM FUND MEMBERS**

To consider any verbal submissions from Fund Members/Stakeholders.

(Submissions must be received by the Clerk to the meeting no later than 5.00p.m. on the day before the meeting.)

6. **SUBMISSIONS / RESPONSES FROM PENSION COMMITTEE**

Verbal report.

7. **PENSION BOARD REPORTS FOR CONSIDERATION**

- 7.1 **Pensions Board, Membership, Quorum and Dates of Meetings** (Pages 11 - 28)

- 7.2 **Feedback from the Chair on CIPFA Pensions Board Seminar**

To receive a verbal report from the Chair of the Pensions Board.

- 7.3 **Discussion on the Regulators 2017 Governance Report**

This verbal discussion will be led by David Thompson.

- 7.4 **Report on Pension Fund Administration Update**

Report to follow

- 7.5 **Report on Future Options for Pension Administration Services** (Pages 29 - 42)

- 7.6 **LGPS Latest Development and Update** (Pages 43 - 56)

- 7.7 **Draft Pension Fund Annual Report and Accounts 2016/17**

Report to follow.

8. **MINUTES OF PREVIOUS PENSION COMMITTEE**

9. PENSIONS COMMITTEE AGENDA FOR THE FORTHCOMING MEETING (31.07.17)

This agenda will be circulated separately to Pension Board Members.

10. DATE OF FUTURE MEETINGS

To note the scheduled Pension Board dates which are also set out at agenda item 7.1. The dates are:

- 11 September
- 20 November
- 12 March (2018)

11. ANY OTHER BUSINESS

- Indemnity Insurance for LPB
- Vacant Post - (Representative for Admitted Bodies – Employers)

12. EXCLUSION OF THE PRESS AND PUBLIC

In view of the contents of the remaining items on the agenda the Committee is recommended to adopt the following motion:

“That, under the provisions of Section 100A of the Local Government Act 1972, as amended by the Local Government (Access to Information) Act 1985, the press and public be excluded from the remainder of the meeting for the consideration of the Section Two business on the grounds that it contains information defined as Exempt in Part 1 of Schedule 12A to the Local Government Act, 1972.”

EXEMPT SECTION (Pink Papers)

The exempt committee papers in the agenda will contain information, which is commercially, legally or personally sensitive and should not be divulged to third parties. If you do not wish to retain these papers after the meeting, please hand them to the Committee Officer present.

12.1 Pension Fund Procurement Plans and Update 2017/18 (Pages 69 - 80)

The next meeting will be held at Monday, 11 September 2017 and MP702, 7th Floor, Town Hall, Mulberry Place, 5 Clove Crescent, London E14 2BG.

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Agenda Item 3

DECLARATIONS OF INTERESTS - NOTE FROM THE MONITORING OFFICER

This note is for guidance only. For further details please consult the Members' Code of Conduct at Part 5.1 of the Council's Constitution.

Please note that the question of whether a Member has an interest in any matter, and whether or not that interest is a Disclosable Pecuniary Interest, is for that Member to decide. Advice is available from officers as listed below but they cannot make the decision for the Member. If in doubt as to the nature of an interest it is advisable to seek advice **prior** to attending a meeting.

Interests and Disclosable Pecuniary Interests (DPIs)

You have an interest in any business of the authority where that business relates to or is likely to affect any of the persons, bodies or matters listed in section 4.1 (a) of the Code of Conduct; and might reasonably be regarded as affecting the well-being or financial position of yourself, a member of your family or a person with whom you have a close association, to a greater extent than the majority of other council tax payers, ratepayers or inhabitants of the ward affected.

You must notify the Monitoring Officer in writing of any such interest, for inclusion in the Register of Members' Interests which is available for public inspection and on the Council's Website.

Once you have recorded an interest in the Register, you are not then required to declare that interest at each meeting where the business is discussed, unless the interest is a Disclosable Pecuniary Interest (DPI).

A DPI is defined in Regulations as a pecuniary interest of any of the descriptions listed at **Appendix A** overleaf. Please note that a Member's DPIs include his/her own relevant interests and also those of his/her spouse or civil partner; or a person with whom the Member is living as husband and wife; or a person with whom the Member is living as if they were civil partners; if the Member is aware that that other person has the interest.

Effect of a Disclosable Pecuniary Interest on participation at meetings

Where you have a DPI in any business of the Council you must, unless you have obtained a dispensation from the authority's Monitoring Officer following consideration by the Dispensations Sub-Committee of the Standards Advisory Committee:-

- not seek to improperly influence a decision about that business; and
- not exercise executive functions in relation to that business.

If you are present at a meeting where that business is discussed, you must:-

- Disclose to the meeting the existence and nature of the interest at the start of the meeting or when the interest becomes apparent, if later; and
- Leave the room (including any public viewing area) for the duration of consideration and decision on the item and not seek to influence the debate or decision

When declaring a DPI, Members should specify the nature of the interest and the agenda item to which the interest relates. This procedure is designed to assist the public's understanding of the meeting and to enable a full record to be made in the minutes of the meeting.

Where you have a DPI in any business of the authority which is not included in the Member's register of interests and you attend a meeting of the authority at which the business is considered, in addition to disclosing the interest to that meeting, you must also within 28 days notify the Monitoring Officer of the interest for inclusion in the Register.

Further advice

For further advice please contact:-

Asmat Hussain, Corporate Director for Governance and Monitoring Officer
Telephone: 0207 364 4800

APPENDIX A: Definition of a Disclosable Pecuniary Interest

(Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012, Reg 2 and Schedule)

Subject	Prescribed description
Employment, office, trade, profession or vacation	Any employment, office, trade, profession or vocation carried on for profit or gain.
Sponsorship	<p>Any payment or provision of any other financial benefit (other than from the relevant authority) made or provided within the relevant period in respect of any expenses incurred by the Member in carrying out duties as a member, or towards the election expenses of the Member.</p> <p>This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.</p>
Contracts	<p>Any contract which is made between the relevant person (or a body in which the relevant person has a beneficial interest) and the relevant authority—</p> <p>(a) under which goods or services are to be provided or works are to be executed; and</p> <p>(b) which has not been fully discharged.</p>
Land	Any beneficial interest in land which is within the area of the relevant authority.
Licences	Any licence (alone or jointly with others) to occupy land in the area of the relevant authority for a month or longer.
Corporate tenancies	<p>Any tenancy where (to the Member's knowledge)—</p> <p>(a) the landlord is the relevant authority; and</p> <p>(b) the tenant is a body in which the relevant person has a beneficial interest.</p>
Securities	<p>Any beneficial interest in securities of a body where—</p> <p>(a) that body (to the Member's knowledge) has a place of business or land in the area of the relevant authority; and</p> <p>(b) either—</p> <p>(i) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or</p> <p>(ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person has a beneficial interest exceeds one hundredth of the total issued share capital of that class.</p>

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LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS BOARD

HELD AT 10.00 A.M. ON MONDAY, 13 MARCH 2017

Members Present:

John Jones	(Independent Chair)
Stephen Stratton (Member)	Pensions Board Member representing Active Fund Members
John Gray (Member)	(Representing Active Admitted/Statutory Bodies Pension Fund Members)
David Stephen Thompson	(Vice-Chair)
Councillor Dave Chesterton (Member)	(Mayoral Adviser for Strategic Planning) (Mayor's Cycling Adviser)
Minesh Jani (Member)	(Head of Audit and Risk Management, Resources)

Officers Present:

George Bruce	–	(Interim Pensions Manager)
Kevin Miles	–	(Chief Accountant, Resources)
Bola Tobun	–	(Investments and Treasury Manager, Resources)
	–	(Democratic Services)

1. APOLOGIES

None.

2. DECLARATION OF DISCLOSABLE PECUNIARY INTERESTS

None.

3. MINUTES

The minutes of the previous meeting held on 05.12.16 were agreed as a correct record.

REPORTS FOR CONSIDERATION

4. PRESENTATION FROM LAPFF - ENGAGEMENT, APPROACH AND PRACTICE

The Board heard a presentation from Tessa Younger and Paul Hunter of PIRC, a research and engagement partner to the Local Authority Pension Fund Forum (LAPFF).

The Board was advised that LAPFF had 72 LGPS pension fund members and that the role of LAPFF was to protect the long term interests of LAPFF members by promoting high standards of corporate governance and corporate responsibility to ensure financially and environmentally sustainable returns.

LAPFF was active on a number of specific workstreams including

- Holdings engagement
- All Party parliamentary group LGPS meetings
- Reliable accounts
- Tax
- Carbon Risk
- Consultations

In respect of the engagement workstream, LAPFF had undertaken work on many areas including

- Capital market regulatory reform
- Reliable accounts
- Share buybacks
- AGM attendance
- Executive pay and employment practices
- Mergers and acquisitions
- Anti corruption

LAPFF actively communicated with affiliated members and stakeholders via e-bulletins, quarterly engagement reports, fringe events at party conferences, responding to consultation, attending seminars and networking events and social media. LAPFF also engaged in diversity on boards through a variety of mechanisms such as asking questions at AGMs, issuing voting alerts and direct company engagement.

LAPFF engaged directly with shareholders face to face (60% of this engagement was with company chairs) to encourage high standards of corporate behaviour by well run companies which deliver sustainable shareholder returns. LAPFF had been influential in encouraging companies to prioritise sustainability and lower carbon emissions and gravitate towards investment in low carbon assets and companies.

In respect of executive pay, LAPFF had called for all companies to recommend maximum annual pay levels for senior executives to be signed off by shareholders. 10 companies opposed to this recommendation had been identified and LAPFF would be issuing voting alerts for these company AGMs.

Following the presentation, the Board had a general discussion and made the following observations:

- Did LAPFF actively encourage amalgamation of LGPS Fund Manager Teams?
- What were the implications of the changing relationship with Fund Managers
- Would Fund Managers start to invest in infrastructure schemes following announcements made by Chancellor George Osborne in 2015?
- The LGPS current outturn was healthier following the move away from a final salary pension package
- How would the shift in foreign policy impact on LGPS investments (eg Israel/Palestine)?
- The Board had been advised not to get involved investment decisions and this was frustrating and disappointing given that the Board was trying to protect the interests of the fund.
- Was there a direct dialogue with Investment Advisors and were they fully aware of the risks?
- Diversity of company boards should be extended to employee representation as well as increasing the representation of women.

In response to questions and comments from attendees, Ms Younger and Mr Hunter stated that although it was not easy to demonstrate LAPFF successes, a framework had been established to set objectives and assess outcomes. However, LAPFF had successfully engaged with LGPS fund managers on issues such as climate change through filing shareholder resolutions.

Tower Hamlets Council was a member of LAPFF and received Quarterly reports. Pooled funds didn't allow for segregated voting and there were concerns that this could disenfranchise investors. Infrastructure investments would allow for investment in low carbon initiatives but PIRC was unable to provide investment advice.

The Board thanked Ms Younger and Mr Hunter for attending and the presentation was noted.

The Board agreed

- (1) That LAPFF be requested to examine and report back on engagement with Fund Managers on how the voting rights of LGPS Funds can be strengthened, and to continue promoting diversity on company Boards.

- (2) That a presentation be made at a future meeting on how ESG risk factors can be incorporated into investment decisions (this may also be of interest to the Pensions Committee)

5. PENSION ADMINISTRATION UPDATE WITH PERFORMANCE INDICATOR FOR YEAR TO REPORTING QUARTER

The report was introduced by George Bruce, Interim Pensions Manager. Mr Bruce flagged up the main headlines from the report and explained that a quarterly updates had not been submitted for some time due to staffing issues which had impacted on performance. Although the Key Performance Indicators (KPIs) showed deteriorating performance in a number of areas, it was hoped that this would be addressed in part through improved workflow design would lead to better data quality and reporting.

Mr Bruce drew the Board's attention to the Pensions Committee recommendation to approve the admission of 7 Home Care Companies subject to the conditions of admission being met. He also highlighted that Academy Schools were categorised as Scheduled Bodies and were obliged to join the LGPS. The outcome of the audit on pension administration systems was also discussed and a number of recommendations had been made in respect of

- Users and password access
- Issuing statutory notices
- Auto scheduling
- Updating workflows

During the course of debate, concerns were raised regarding the bureaucracy associated with transferring to the LGPS, costs, risks and dispute resolution outcomes. The Board

- Sought reassurance that adequate resourcing was available to manage the Pensions Fund.
- Requested regular reports on performance within the context of KPIs complaints
- Flagged up concerns regarding cessation arrangements and associated risks and costs
- Highlighted the volume of GMP reconciliations and requested an update on progress in completing these reconciliations.

The Board endorsed the officer recommendations to the Pensions Committee.
6. PENSION BOARD WORK PLAN FOR 2017/18

The Board considered a report outlining the Board's remit and setting out a draft workplan for 2017/18. In presenting the report, officers flagged up some of the core functions of the Board including

- Review the outcome of internal and external audit reports.
- Review the effectiveness of processes for the appointment of advisors and suppliers to the Administering Authority.
- Review the risk register as it relates to the scheme manager function of the authority.

RESOLVED – That the report be noted and that the workplan set out in the report be agreed.

7. INVESTMENT STRATEGY STATEMENT CONSULTATION/COMMENTS AS PER REPORT INCLUDED IN PENSIONS COMMITTEE AGENDA PACK

The Board considered the Pension Fund Draft Investment Strategy which was welcomed. During the course of debate, a number concerns were raised including

- Too much latitude being given to the worst performers
- How the scrutiny process would work under the CIV
- Addressing ESG issues
- Employee representation in the CIV governance structure

The Board recommended that

- The strategy should include a section at the beginning of the document setting out the funding level of the Fund and the context within which the investment strategy has been set.
- The strategy should include an explanation for the 2 lowest yielding asset classes (Property and Corporate Bonds) taking up to 35% of the Funds total assets.
- More information should be provided on the transitional arrangements as assets move into the London CIV.
- More information was also requested on how the London CIV will be scrutinised effectively, and how ESG decisions will be incorporated into the Pool.

8. FUNDING STRATEGY STATEMENT CONSULTATION/COMMENTS AS PER REPORT INCLUDED IN PENSIONS COMMITTEE AGENDA PACK

In introducing the report, officers highlighted that schools had not been contributing towards reducing the deficit and also flagged up the financial risks and appropriate controls.

The Board asked for clarification on inflation risks and ESG factors.

The report was noted.


9. MINUTES OF THE PREVIOUS PENSIONS COMMITTEE

In noting the minutes, the Board expressed concerns over the absence of Pensions Committee Members at the previous meeting and emphasised the

importance of full engagement and input from those responsible for managing the Pension Fund.

The meeting ended at 12.38 p.m.

John Jones
Chair, Pensions Board

Non-Executive Report of the: Pensions Board 31 July 2017	
Report of: Matthew Mannion, Committee Services Manager	Classification: Unrestricted
Pensions Board, Membership, Quorum and Dates of Meetings	

Originating Officer(s)	Georgina Wills Committee Officer
Wards affected	(All Wards);

Summary

This report sets out the Terms of Reference, Membership and Quorum of the Pensions Board for the Municipal Year 2017/18 for Members' information.

Recommendations:

The Pensions Board is recommended to:

1. Note its Terms of Reference, Membership and Quorum as set out in Appendix A to this report.
2. Note the dates of scheduled meetings for the remainder of the Municipal year.
3. To confirm 10am as the preferred time at which the scheduled meetings will start

1. REASONS FOR THE DECISIONS

- 1.1 The report is brought to assist new Members by informing them of the framework for the Board's membership and meetings.

2. ALTERNATIVE OPTIONS

- 2.1 The report asks the Board solely to confirm its arrangements and therefore its Members are not required to consider any alternative options.

3. DETAILS OF REPORT

- 3.1 The Pensions Board was established under the Local Government Pension Scheme Regulations 2013 (as amended from time to time), the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended from time to time) including any

earlier regulations as defined in these regulations to the extent they remain applicable and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended from time to time).

- 3.2 At the Annual Council Meeting on 17th May 2017, Members were appointed to the various Committees and Panels established for the new municipal year as set out in the Constitution. The Terms of Reference, membership of the Pensions Board and its Quorum thereof are set out in Appendix A.

4. MEMBERSHIP

- 4.1 At Pensions Board on 24th February 2015 Members agreed the terms of reference and appointed 7 Members in line with the recommendations of the government guidance. The Board resolved at its meeting on 20 November 2015 that the Pension Board Terms of Reference be included in the agenda at the first meeting of each municipal year and a copy, for reference, be available at each meeting
- 4.2 To ensure the size of the Board is not cumbersome but representation across the scope of the Pension Fund is retained. A working party agreed that the Board Membership should comprise 7 members composed of:
3 employer representatives,
3 employee representatives and
an independent non-voting member to act as Chair of the Board.
- 4.3 The employer and employee categories were further divided into the following categories:
Employer Representatives
1 Elected Member
1 Tower Hamlets Senior (management) Officer
1 Admitted/Statutory Bodies (management) Representative
- Employee Representatives
1 Active Fund Member (Tower Hamlets employee)
1 Active Fund Member (Admitted/Statutory Bodies employee)
1 Non-active Fund Member (Retired/deferred fund members)

5. PROGRAMME OF MEETINGS

- 5.1 The Council has agreed a programme of meetings for the municipal year. It is proposed that the Pensions Board follows the pattern agreed for Pensions Committee and so the following calendar of dates for the remainder of the municipal year is placed before Board for consideration:

11 September
20 November
12 March (2018)

5.2 The Pensions Board is able to determine its preferred meeting time at the Chair's discretion. Members are asked to consider whether 10am remains as the preferred time at which the scheduled meetings will start.

5.3 It is customary also that any meetings that fall during the holy month of Ramadan are scheduled to commence at 5.30pm.

6. COMMENTS OF THE CHIEF FINANCE OFFICER

6.1 There are no specific financial implications arising from the recommendations within this report.

7. LEGAL COMMENTS

7.1 The information provided for the Committee to note is in line with Part 3.3.13 of the Council's Constitution and the resolutions made by Council on 17th May 2017.

8. ONE TOWER HAMLETS CONSIDERATIONS

8.1 There are no specific equalities considerations arising from the recommendation in the report.

9. BEST VALUE (BV) IMPLICATIONS

9.1 There are no specific best value implications arising from the recommendations in the report.

10. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

10.1 There are no specific proposals in this report which affects or will contribute towards a sustainable environment.

11. RISK MANAGEMENT IMPLICATIONS

11.1 There are no specific risk management implications arising from the recommendations in the report.

12. CRIME AND DISORDER REDUCTION IMPLICATIONS

12.1 There are no specific crime and disorder reduction implications arising from the recommendations in the report.

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- Appendix A – Pensions Board Terms of Reference , Membership and Quorum

Local Government Act, 1972 Section 100D (As amended) List of “Background Papers” used in the preparation of this report

- NONE

Officer contact details for documents:

- N/A

LOCAL PENSION BOARD OF LONDON BOROUGH OF TOWER HAMLETS

TERMS OF REFERENCE

Introduction

1. This document sets out the terms of reference of the Local Pension Board of [LONDON BOROUGH OF TOWER HAMLETS] (the 'Administering Authority') a scheme manager as defined under Section 4 of the Public Service Pensions Act 2013. The Local Pension Board (hereafter referred to as 'the Board') is established in accordance with Section 5 of that Act and under regulation 106 of the Local Government Pension Scheme Regulations 2013 (as amended).
2. The Board is established by the Administering Authority and operates independently of the Committee. Relevant information about its creation and operation are contained in these Terms of Reference.
3. The Board is not a committee constituted under Section 101 of the Local Government Act 1972 and therefore no general duties, responsibilities or powers assigned to such committees or to any sub-committees or officers under the constitution, standing orders or scheme of delegation of the Administering Authority apply to the Board unless expressly included in this document.
4. Except where approval has been granted under regulation 106(2) of the Regulations the Board shall be constituted separately from any committee or sub-committee constituted under Section 101 of the Local Government Act 1972 with delegated authority to execute the function of the Administering Authority.

Interpretation

5. The following terms have the meanings as outlined below:

'the Act'	The Public Service Pensions Act 2013.
'the Code'	means the Pension Regulator's Code of Practice No 14 governance and administration of public service pension schemes.
'the Committee'	means the committee who has delegated decision making powers for the Fund in accordance with Section 101 of the Local Government Act 1972 (i.e. the Pensions Committee at LBTH).
'the Fund'	means the Fund managed and administered by the Administering Authority.
'the Guidance'	means the guidance on the creation and operation of local pension boards issued by the Shadow Scheme Advisory Board.

'the Regulations'	means the Local Government Pension Scheme Regulations 2013 (as amended from time to time), the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended from time to time) including any earlier regulations as defined in these regulations to the extent they remain applicable and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended from time to time).
'Relevant legislation'	means relevant overriding legislation as well as the Pension Regulator's Codes of Practice as they apply to the Administering Authority and the Board notwithstanding that the Codes of Practice are not legislation.
'the Scheme'	means the Local Government Pension Scheme in England and Wales.

Statement of purpose

6. The purpose of the Board is to assist¹ the Administering Authority in its role as a scheme manager of the Scheme. Such assistance is to:
- (a) secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme and;
 - (b) to ensure the effective and efficient governance and administration of the Scheme.

Duties of the Board

7. The Board should at all times act in a reasonable manner in the conduct of its purpose. In support of this duty Board members should be subject to and abide by the code of conduct for Board members².

Establishment

The Board is established on [01 APRIL 2014] subsequent to approval by [FULL COUNCIL] on [26 NOVEMBER 2014]. (subject to the agreement of the Pensions Committee on 24 February 2015).

¹ Please see paragraph 3.28 of the Guidance for more information on what assisting the Administering Authority means.

² See paragraphs 7.9 to 7.11 of the Guidance for more information on a Code of Conduct for Boards.

8. As stated above, the Pensions Board is not explicitly bound by the rules governing Committees established under Section 101 of the Local Government Act 1972, however, for consistency and best practice, the Pensions Board will, where practicable and subject to specific rules set out in these Terms of Reference, operate in the same way as the Council's other Committees as set out in the Constitution. This includes:
- Rules 6 - 10, 17.3, 17.6 and 18 to 25 of the Council Procedure Rules (Part 4 – Rules of Procedures) relating to :
 - Notice and summons to meetings
 - Chair of meeting (except in relation to casting votes)
 - Quorum
 - Duration of meetings
 - Cancellation of meetings
 - Voting (certain rules)
 - Minutes
 - Petitions
 - Record of Attendance
 - Exclusion of the Public
 - Members' Conduct
 - Disturbance by Public
 - Suspension of Amendment of Council Procedure Rules
 - Access to Information Procedure Rules (Part 4.2 of the Constitution)
 - Code of Conduct for Members (Part 5.1 of the Constitution) – with specific reference to registering and disclosing interests.
 - Members' Allowance Scheme (Part 6 of the Constitution) – with particular reference to allowances and expenses payable.

Membership

9. The Board shall consist of [SIX] voting members, as follows:

[THREE] Member Representatives; and

[THREE] Employer Representatives.

10. There shall be an equal number of Member and Employer Representatives.

11. There shall also be [ONE] other representatives who is not entitled to vote.

Member representatives

12. Member representatives shall either be scheme members³ or have capacity to represent scheme members of the Fund.

13. Member representatives should be able to demonstrate their capacity⁴ to attend and complete the necessary preparation for meetings and participate in training as required.

³ Active, deferred or pensioner members

⁴ See paragraphs 5.16 to 5.20 of the Guidance which outlines what 'capacity' in this context means.

14. Substitutes [SHALL] be appointed. Where appointed substitutes should be named and must undertake the same training as full members.
15. A total of [THREE] member representatives shall be appointed⁵ from the following sources:
 - a) [ONE] member representative shall be appointed by the recognised trade unions representing employees who are scheme members of the Fund.
 - b) [ONE] member representative shall be appointed by [ADMITTED BODIES FORUM] where that body is independent of the Administering Authority and open to and representative of all scheme members of the Fund.
 - c) [ONE] member representative shall be appointed following a transparent recruitment process which should be open to all pensioners and be approved by the Administering Authority.

Employer representatives

16. Employer representatives shall be office holders or senior employees of employers of the Fund or have experience of representing scheme employers in a similar capacity. No officer or elected member of the Administering Authority who is responsible for the discharge of any function of the Administering Authority under the Regulations may serve as a member of the Board.
17. Employer representatives should be able to demonstrate their capacity⁶ to attend and complete the necessary preparation for meetings and participate in training as required.
18. Substitutes [SHALL] be appointed. Where appointed substitutes should be named and must undertake the same training as full members.
19. A total of [THREE] employer representatives shall be appointed⁷ to the Board from the following sources:
 - a) [ONE ELECTED MEMBER] employer representatives shall be appointed by [FULL COUNCIL] to and representative of all employers in the Fund.
 - b) [ONE] employer representatives shall be appointed following a transparent recruitment process which should be open to all employers in the Fund and be approved by the Administering Authority.

⁵ See paragraphs 5.25 to 5.28 of the Guidance for further information on the process for appointing member representatives.

⁶ See paragraphs 5.16 to 5.20 of the Guidance which outlines what 'capacity' in this context means.

⁷ See paragraphs 5.25 to 5.28 of the Guidance for further information on the process for appointing employer representatives.

- c) [ONE] employer representatives shall be appointed by the Administering Authority where all employers will have been asked to submit their interest in undertaking the role of employer representative on the Board.

Other members⁸

20. [ONE] other member shall be appointed to the Board by the agreement of both the Administering Authority and the Board to act as an Independent Chair.

21. Other members do not have voting rights on the Board.

Appointment of chair

22. Subject to the meeting arrangements in paragraphs 35 to 37 below a chair shall be appointed for the Board as set out below:

- a) *An independent chair to be appointed by the Administering Authority but shall count as an 'other' member under paragraphs 20-21 above. In this respect the term independent means having no pre-existing employment, financial or other material interest in either the Administering Authority or any scheme employer in the Fund or not being a member of the Fund.*

Duties of chair

23. The chair of the Board:

- (a) Shall ensure the Board delivers its purpose as set out in these Terms of Reference,
- (b) Shall ensure that meetings are productive and effective and that opportunity is provided for the views of all members to be expressed and considered, and
- (c) Shall seek to reach consensus and ensure that decisions are properly put to a vote when it cannot be reached. Instances of a failure to reach a consensus position will be recorded and published.

Notification of appointments

24. When appointments to the Board have been made the Administering Authority shall publish the name of Board members, the process followed in the appointment together with the way in which the appointments support the effective delivery of the purpose of the Board.

Terms of Office⁹

⁸ When considering whether to have other members on the Board regard should be given to the advice provided in paragraphs 5.21 to 5.24 of the Guidance.

25. The term of office for Board members is [FOUR] years.
26. Extensions to terms of office may be made by the Administering Authority with the agreement of the Board.
27. A Board member may be appointed for further terms of office using the methods set out in paragraphs 15 and 19.
28. Board membership may be terminated prior to the end of the term of office due to:
 - (a) A member representative appointed on the basis of their membership of the scheme no longer being a scheme member in the Fund¹⁰.
 - (b) A member representative no longer being a scheme member or a representative of the body on which their appointment relied.
 - (c) An employer representative no longer holding the office or employment or being a member of the body on which their appointment relied.
 - (d) A Board member no longer being able to demonstrate to [LONDON BOROUGH OF TOWER HAMLETS] their capacity to attend and prepare for meetings or to participate in required training.
 - (e) The representative being withdrawn by the nominating body and a replacement identified.
 - (f) A Board member has a conflict of interest which cannot be managed in accordance with the Board's conflict policy.
 - (g) A Board member who is an elected member becomes a member of the Pensions Committee.
 - (h) A Board member who is an officer of the Administering Authority becomes responsible for the discharge of any function of the Administering Authority under the Regulations.

Conflicts of interest¹¹

29. All members of the Board must declare to the Administering Authority on appointment and at any such time as their circumstances change, any potential conflict of interest arising as a result of their position on the Board.
30. A conflict of interest is defined as a financial or other interest which is likely to prejudice a person's exercise of functions as a member of the Board. It does not include a financial or other interest arising merely by virtue of that person being a member of the Scheme.
31. On appointment to the Board and following any subsequent declaration of potential conflict by a Board member, the Administering Authority shall ensure

⁹ See paragraphs 5.29 and 5.30 of the Guidance which outlines points to consider when setting out the term of office for Board members. In particular consideration should be given to allowing members to retire on a rolling basis to ensure experience is retained.

¹⁰ This includes active, deferred and pensioner members.

¹¹ See section 7 of the Guidance for more information on Conflicts of Interest.

that any potential conflict is effectively managed in line with both the internal procedures of the Board's conflicts policy and the requirements of the Code.

Knowledge and understanding (including Training)¹²

32. Knowledge and understanding must be considered in light of the role of the Board to assist the Administering Authority in line with the requirements outlined in paragraph 6 above. The Board shall establish and maintain a Knowledge and Understanding Policy and Framework to address the knowledge and understanding requirements that apply to Board members under the Act. That policy and framework shall set out the degree of knowledge and understanding required as well as how knowledge and understanding is acquired, reviewed and updated.
33. Board members shall attend and participate in training arranged in order to meet and maintain the requirements set out in the Board's knowledge and understanding policy and framework.
34. Board members shall participate in such personal training needs analysis or other processes that are put in place in order to ensure that they maintain the required level of knowledge and understanding to carry out their role on the Board.

Meetings

35. The Board shall as a minimum meet [FOUR] times¹³ each year.
36. Meetings shall normally take place between the hours of [09:00] and [21:00] at [LBTH TOWNHALL].
37. The chair of the Board with the consent of the Board membership may call additional meetings. Urgent business of the Board between meetings may, in exceptional circumstances, be conducted via communications between members of the Board including telephone conferencing and e-mails.

Quorum

38. A meeting is only quorate when at least one person of each member and employer representatives are present including an independent chair. Or 50% of both member and employer representatives are present.
39. A meeting that becomes inquorate may continue but any decisions will be non-binding.

¹² See section 6 of the Guidance for more information on Knowledge and Understanding.

¹³ See 5.35.11 in Guidance for more advice on the number of meetings to hold each year.

Board administration

40. The Chair shall agree with [AN OFFICER FROM DEMOCRATIC SERVICES] (the 'Board Secretary') an agenda prior to each Board meeting.
41. The agenda and supporting papers will be issued at least [SEVEN] working days (where practicable) in advance of the meeting except in the case of matters of urgency.
42. Draft minutes of each meeting including all actions and agreements will be recorded and published within [TWENTY - ONE] working days of the meeting. These draft minutes will be subject to formal agreement by the Board at their next meeting. Any decisions made by the Board should be noted in the minutes and in addition where the Board was unable to reach a decision such occasions should also be noted in the minutes.

Where necessary any information considered exempt as specified in Part 1 of Schedule 12A of the Local Government Act 1972 or considered confidential for the purposes of Section 100A(2) of that Act and/or they represent data covered by the Data Protection Act 1998 shall be included in a Part II minute that is not made available to the public.

43. The Board Secretary, in consultation with [Investment & Treasury Manager] shall support Board members in maintaining their knowledge and understanding as determined in the Board's Knowledge and Understanding Policy and Framework and other guidance or legislation.
44. The Board Secretary shall arrange such advice as is required by the Board subject to such conditions as are listed in these Terms of Reference for the use of the budget set for the Board.
45. The Board Secretary shall ensure an attendance record is maintained along with advising the Administering Authority on allowances and expenses to be paid under these terms.
46. The Board Secretary shall liaise with the Administering Authority on the requirements of the Board, including advanced notice for officers to attend and arranging dates and times of Board meetings.

Public access to Board meetings and information

47. The Board meetings will be open to the general public (unless there is an exemption under relevant legislation which would preclude part (or all) of the meeting from being open to the general public).
48. The following will be entitled to attend Board meetings in an observer capacity:
 - (a) *Members of the Pensions Committee,*
 - (b) *Any person requested to attend by the Board.*

Any attendees will be permitted to speak at the discretion of the Chair.

49. In accordance with the Act the Administering Authority shall publish information about the Board to include:
- (a) The names of Board members and their contact details.
 - (b) The representation of employers and members on the Board.
 - (c) The role of the Board.
 - (d) These Terms of Reference.
50. The Administering Authority shall also publish other information about the Board including:
- (a) Agendas and minutes
 - (b) Training and attendance logs
 - (c) An annual report on the work of the Board to be included in the Fund's own annual report.
51. All or some of this information may be published using the following means or other means as considered appropriate from time to time:
- (a) On the Fund's website.
 - (b) As part of the Fund's Annual Report.
 - (c) As part of the Governance Compliance Statement.
52. Information may be excluded on the grounds that it would either involve the likely disclosure of exempt information as specified in Part 1 of Schedule 12A of the Local Government Act 1972 or it being confidential for the purposes of Section 100A(2) of that Act and/or they represent data covered by the Data Protection Act 1998.

Expenses and allowances¹⁴

53. The Administering Authority [SHALL] meet the expenses of Board members in line with the Administering Authority's policy on expenses as set out in the Members Allowances Scheme

Budget

54. The Board is to be provided with adequate resources to fulfil its role. In doing so the budget for the Board will be met from the Fund and determined by:
- a) *The Board will seek approval from the Corporate Director of Resources for any expenditure it wishes to make.*

¹⁴ Provision for the payment of expenses and allowances is a decision to be made locally by each Administering Authority. Full consideration should be given to information in Guidance - see section 9 and paragraphs 5.18 and 5.35.17 for more information. Administering authorities should aim to ensure that no Board member is either better or worse off as a result of fulfilling their duties as a member of the Board.

Core functions¹⁵

55. The first core function of the Board is to assist¹⁶ the Administering Authority in securing compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme. Within this extent of this core function the Board may determine the areas it wishes to consider including but not restricted to:

- a) *Review regular compliance monitoring reports which shall include reports to and decisions made under the Regulations by the Committee.*
- b) *Review management, administrative and governance processes and procedures in order to ensure they remain compliant with the Regulations, relevant legislation and in particular the Code.*
- c) *Review the compliance of scheme employers with their duties under the Regulations and relevant legislation.*
- d) *Assist with the development of and continually review such documentation as is required by the Regulations including Governance Compliance Statement, Funding Strategy Statement and Statement of Investment Principles.*
- e) *Assist with the development of and continually review scheme member and employer communications as required by the Regulations and relevant legislation.*
- f) *Monitor complaints and performance on the administration and governance of the scheme.*
- g) *Assist with the application of the Internal Dispute Resolution Process.*
- h) *Review the complete and proper exercise of Pensions Ombudsman cases.*
- i) *Review the implementation of revised policies and procedures following changes to the Scheme.*
- j) *Review the arrangements for the training of Board members and those elected members and officers with delegated responsibilities for the management and administration of the Scheme.*
- k) *Review the complete and proper exercise of employer and administering authority discretions.*
- l) *Review the outcome of internal and external audit reports.*
- m) *Review draft accounts and Fund annual report.*
- n) *Review the compliance of particular cases, projects or process on request of the Committee.*
- o) *Any other area within the statement of purpose (i.e. assisting the Administering Authority) the Board deems appropriate.*

56. The second core function of the Board is to ensure the effective and efficient governance and administration of the Scheme. Within this extent of this core

¹⁵ In determining the role of the Board, further information can be found in paragraphs 3.27 to 3.29 of the Guidance.

¹⁶ Please see paragraph 3.28 of the Guidance for more information on what assisting the Administering Authority means.

function the Board may determine the areas it wishes to consider including but not restricted to:

- a) *Assist with the development of improved customer services.*
- b) *Monitor performance of administration, governance and investments against key performance targets and indicators.*
- c) *Review the effectiveness of processes for the appointment of advisors and suppliers to the Administering Authority.*
- d) *Monitor investment costs including custodian and transaction costs.*
- e) *Monitor internal and external audit reports.*
- f) *Review the risk register as it relates to the scheme manager function of the authority.*
- g) *Assist with the development of improved management, administration and governance structures and policies.*
- h) *Review the outcome of actuarial reporting and valuations.*
- i) *Assist in the development and monitoring of process improvements on request of Committee.*
- j) *Assist in the development of asset voting and engagement processes and compliance with the UK Stewardship Code.*
- k) *Any other area within the statement of purpose (i.e. ensuring effective and efficient governance of the scheme) the Board deems appropriate.*

57. In support of its core functions the Board may make a request for information to the Committee with regard to any aspect of the Administering Authority's function. Any such request should be reasonably complied with in both scope and timing.

58. In support of its core functions the Board may make recommendations to the Committee which should be considered and a response made to the Board on the outcome within a reasonable period of time.

Reporting¹⁷

59. The Board should in the first instance report its requests, recommendations or concerns to the Committee. In support of this any member of the Board may attend a Committee meeting as an observer.

60. Requests and recommendations should be reported under the provisions of paragraphs 59 and 60 above.

61. The Board should report any concerns over a decision made by the Committee to the Committee subject to the agreement of at least 50% of voting Board members provided that all voting members are present. If not all voting members are present then the agreement should be of all voting members who are present, where the meeting remains quorate.

62. On receipt of a report under paragraph 63 above the Committee should, within a reasonable period, consider and respond to the Board.

¹⁷ See section 8 of the Guidance for more information on Reporting.

- 63. Where the Board is not satisfied with the response received it may request that a notice of its concern be placed on the website and in the Fund's annual report.
- 64. Where the Board is satisfied that there has been a breach of regulation which has been reported to the Committee under paragraph 63 and has not been rectified within a reasonable period of time it is under an obligation to escalate the breach.
- 65. The appropriate internal route for escalation is to the Monitoring Officer and/or Acting Corporate Director of Resources, the Section 151 Officer.
- 66. The Board may report concerns to the LGPS Scheme Advisory Board for consideration subsequent to, but not instead of, using the appropriate internal route for escalation.
- 67. Board members are also subject to the requirements to report breaches of law under the Act and the Code [and the whistleblowing provisions set out in the Administering Authority's whistle blowing policy].

Review of terms of reference

- 68. These Terms of Reference shall be reviewed on each material change to those parts of the Regulations covering local pension boards and at least every [THREE] years.
- 69. These Terms of Reference were [adopted on [01 APRIL 2015]].

.....
Signed on behalf of the Administering Authority

.....
Signed on behalf of the Board

Published 24 February 2015

PENSIONS BOARD – MEMBERSHIP

At the Annual General Meeting of the Council held on 17 May 2017 Councillor Dave Chesterton was appointed to the Pensions Board for the duration of the Municipal Year.

The remainder of the appointments are listed below.

PENSIONS BOARD (Six members and an Independent Chair)		
Fund Member Representatives x3 (voting members)	Fund Employer Representatives. x3 (voting members)	Independent Person x1 (Non -voting member)
<p>Stephen Stratton, (Active Fund Members' Representative)</p> <p>John Gray, (Admitted Bodies Representative for Active Fund Members)</p> <p>David Stephen Thompson, (Representing Retired/Deferred Pension Fund Members)</p>	<p>Councillor Dave Chesterton, (Representing Pension Fund Employers)</p> <p>Minesh Jani, (Representing Pension Fund Employers)</p> <p>Vacant Post (Representing Admitted Bodies – Employers)</p>	<p>John Johns (Chair)</p>

The quorum of the Pensions Board is three voting Members.

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Non-Executive Report of the: PENSIONS BOARD 31 st July 2017	
Report of: Zena Cooke, Corporate Director of Resources	Classification:
Future Options for Pension Administration Services	

Originating Officer(s)	George Bruce, Interim Pensions Manager
Wards affected	All

Introduction:

Pension Administration services to the Tower Hamlets Pension Scheme are provided by the Council’s in-house Pensions Team. This paper identifies alternative arrangements for providing an administration service, considers the advantages and challenges of the current arrangements and compares these with alternative arrangements. The paper concludes that further investigation should be undertaken of the alternatives discussed in the paper to be followed by a recommendation to the next Committee meeting.

The options being discussed do not involve the pension investment and finance teams.

It is recommended that further detailed evaluation of the options outlined in the paper, including discussion with other local authorities, is undertaken.

Recommendations:

The Pensions Board is recommended to consider and comment on the contents of the report.

1. REASONS FOR THE DECISIONS

- 1.1 The LGPS is becoming increasing complex due to the frequent changes in legislation, regulation and best practice guidance. It is also under greater scrutiny through the enhanced role given to the Pensions Regulator. Maintaining awareness of and implementing new regulations is a challenge for a small team. Additionally, a small team such as that which operates in Tower Hamlets faces inherent risks from losing key staff. Working as part of a multi-client grouping will enable the resources required to demonstrate compliance with best practice to be shared and potentially offer greater resilience and transparency of performance.

2. ALTERNATIVE OPTIONS

2.1 The report fully explores the available options.

3. DETAILS OF REPORT

Introduction

- 3.1 Services to the Pension Scheme are delivered by the Council's HR and Finance Departments. Finance provides investment and accounting support, while the Pensions team in HR maintain the records of contributing members, calculate and pay benefits and deal with employer issues. This report is concerned solely with the HR aspects of pension support.
- 3.2 The Pensions team comprises seven people. There are currently eight staff including three interims and one apprentice reflecting a need to replace three retired, seconded and maternity leave staff and to progress ongoing projects. Recent reviews by the LGA and Internal Audit have indicated procedural weaknesses in the team in the prolonged absence of the Pensions Manager. Although these issues are being addressed they indicate the vulnerability of small specialist teams to the loss of key staff.
- 3.3 The current in-house pension team has been in place at least 30 years and probably since the establishment of LB Tower Hamlets. Most London Boroughs have historically relied upon in-house pension administration, although this has been changing in recent years and now only 12 of the 32 London Boroughs have single borough in-house pension teams. Appendix A lists the pension arrangements for all London Boroughs.
- 3.4 This report will firstly look at the advantages and challenges of running a single borough in-house pension team. Alternative arrangements will be outlined and although a recommendation is made to investigate the option of working collaboratively with other Local Authorities there is no proposal at this stage to alter the existing arrangements. Following the Committee meeting, detailed evaluation of the alternatives outlined in the paper will be undertaken before the September meeting.

Advantages and drawbacks of the current arrangements

- 3.5 In comparing an in-house team with other possible structures there are both strengths and challenges to retaining an in-house team. These are explored below. Some of the challenges can be addressed, although residual risk may always remain as explained below.

Advantages of an in-house team

Direct control over the quality of the service.

With an in-house team, management are in full control and can alter the priorities, the targets, the resources and procedures / processes. Working with others involves a degree of loss of control.

Direct relationship with scheme members and other third parties

Currently, communication and service to scheme members is direct and not via an intermediary. Similar, there is direct contact with all service suppliers e.g. actuary.

Avoidance of conflicts from the needs of other clients

The in-house team only has one client and is therefore free from having to structure a service to balance the needs of multiple clients.

Certainty for staff

Continuing the current arrangements offers continuity for current staff.

- 3.6 Alongside the advantages of the current in-house arrangement there are a number of challenges. Calling these challenges reflects that many can be mitigated but that risks remain. These are:

Reliance of a few skilled staff

Small teams are inherently reliant on a few skilled individuals, with knowledge of key processes often known to only one or two. Staff changes can therefore have a significant impact on service levels.

Increasing complexity and regulatory oversight

The LGPS and pensions generally are increasingly complex and subject to regulatory oversight. Maintaining awareness of responsibilities and delivering a high quality service at a reasonable cost is challenging for a small team in such an evolving and complex environment. Regulatory oversight means that doing things well is only part of the requirement. There is also a need to demonstrate that compliance has been achieved.

Focus tends to be on day-to-day workload

Projects that are time consuming to implement but lead to efficiency savings can be difficult to progress when resourced from the existing team.

Higher costs

Costs, in particular project and IT, can be high for small schemes measured on a cost per member basis. National benchmarking indicates economies of scale. For 2015, LGPS administration costs in England averaged £25 a member, while for London the average was £42 to £49.

Management of IT systems

Managing the IT platform is complex and intensive. The benefits accrue to one scheme only.

Limited access to senior management

The administration of pensions is not integral to any of the Council's priorities and can lack management attention. In addition, responsibility for oversight is shared with the Pensions Committee and Board, with each party not familiar with the monitoring work undertaken elsewhere

- 3.7 We have highlighted a number of challenges from having a small in-house team operating in a challenging and evolving environment. These challenges can be mitigated through having adequate resources both in terms of quantity and quality. Building in resilience requires some excess capacity (again both quality and quantity) at normal times so that ad-hoc issues e.g. staff departures, changes in regulation etc can be handled.
- 3.8 It is relatively rare for in-house team to be 'over' resourced to cope with the unexpected. This is reflected by surveys by the Pensions Regulator that report that small in-house pension teams are less aware of their regulatory duties and less likely to have in place procedures to ensure the completeness and accuracy of data. These findings are consistent with the tone of the LGA report commissioned for Tower Hamlets.
- 3.9 The current structure of the in-house team has seven staff, which is broadly adequate (with no spare capacity) post the completion of the various projects that are ongoing (Payroll data interface and enhancements to deal with auto-enrolment, member self-service and GMP reconciliations). A survey of in-house pension teams for London Boroughs (six responded) indicated team sizes of 4 to 13 with an average of 8.5.

Consideration of Alternative Delivery Options

- 3.10 There are two main alternative means of delivering pension administration services to the Scheme. These are:

- (a) Co-operation with other Local Authorities
- (b) Appointing an external third party administrator

Each of these two options is considered below.

Co-operation with Other Local Authorities

- 3.11 Co-operating with other local authorities can be seen as sitting in between an in-house team and fully fledged multi-client third party administrator. The Local Authority groupings have a handful of clients, not many hundreds and focus mostly or entirely on the LGPS. The main advantage they bring is scale of resources. With larger teams there should be less reliance on a single person. Similarly, when handling IT platforms, changing regulations or service enhancing projects the effort is spread across multiple schemes, which should mean lower costs per scheme.
- 3.12 There are three groupings of Local Authorities involving London Boroughs – Orbis (Surrey and East Sussex), Local Pension Partnership (LPFA and Lancashire) and Pensions Shared Service (Wandsworth). In addition the West Yorkshire Pension Fund also offer LGPS administration services, although it has no London Borough's as clients. Brief comments relating to each grouping is attached (appendix 2).
- 3.13 Each of the three London groupings provides pension administration services to four of five London Boroughs. Staff numbers vary between 35 (Pension Shared Service) and 120 (Local Pension Partnership). The parent entities being local authorities have an internal need to provide good quality pension administration (the senior directors will mostly be in the scheme), while for the third party administrators the service is commercially motivated.
- 3.14 Other potential advantages of working with Local Authority groupings include:
- IT economies of scale
 - Bigger grouping can negotiate lower per member IT costs. In addition they are consulted on systems developments and tend to be first adopters of updates.
 - Specialist staff
 - With larger teams, staff can specialise e.g. client facing, IT, regulatory oversight, data quality etc.
 - Standardised client reporting
 - Over time standardised client reporting will have been developed with the input of their various clients.
- 3.15 The London based local authority groupings discussed above can be appointed as a service delegation based on recovery of costs rather than a commercial fee.
- 3.16 In addition to the four existing Local Authority groupings highlighted in appendix 2, there is the possibility of working with other Local Authorities,

including councils that face the same challenges as Tower Hamlets. There may even be opportunities for Tower Hamlets to be the host borough. Setting up a new grouping from scratch will however take longer than joining an existing grouping.

3.17 It would be wrong to suggest that there are no risks with switching from an in-house provider to a local authority grouping. These are the reverse of the advantages of retaining an in-house team e.g.

- Loss of controls and the need to compromise.
- Reliant on third party to report on service standards.
- Key staff being diverted to address new business or other client needs.
- Less direct contact with scheme members and service providers.
- Impact on current in-house staff.

3.18 There are also issues around the transition to the new site and systems. Fortunately all the London based grouping use the same administration system as Tower Hamlets, reducing the transfer complexity.

3.19 Even if most day-to-day administration is transferred externally, some work (employer issues, complaints, contract reporting etc) will remain in-house.

3.20 Retaining continuity of the existing team should be a key goal. Good quality pension staff are increasingly rare and retaining knowledge of Tower Hamlets history is important. Locating the team in the borough or close by will increase the likelihood of continuity.

Appointing an external third party administrator

3.21 The third option identified is appointing a third party administrator by way of a commercial tender. There are many third party administrators who provide pension administration services to private and public sector schemes. Some of the largest pension scheme with 100,000s of scheme members e.g. British Coal Pensions have appointed external third party administrators. Other schemes e.g. Railways, have converted their in-house administrators into commercial entities seeking external business as a way of generating revenue. The key drivers for externalising pension administration are cost reduction and risk management. Pensions is highly specialised; costly if based on manual processes; highly dependent on good technology and requires constant vigilance to identify and comply with the frequent changes in legislation and regulation. Private (and public) sector pension schemes

have over the years outsourced most investment management activity to specialists and see a direct parallel in outsourcing in-house administration to specialist organisations.

3.22 In theory, appointing a third part administrator will magnify both the advantages (cost and resilience) and disadvantages (compromise and loss of control) of local authority groupings.

3.23 Third party administrators can be accessed through the National LGPS Frameworks. This is a relatively new framework (December 2016) and this framework has two lots (full administration services and support services). The providers for lot 1 (full administration services) are:

- Capita Employee Benefits
- Equiniti
- Orbis
- West Yorkshire Pension Fund

3.24 A summary of Capita and Equiniti's pension administration scale is included on appendix 2.

3.25 There are many other third party administrators not on the national framework, some of whom may have local authority business. Using the framework has significant procurement benefits. However, a full tender could also be undertaken.

3.26 Local authority experience of third party commercial pension administration has been mixed in recent years. This is often due to the drive to minimise costs, requiring reliance on IT systems to record activity and make calculations with relatively few experienced staff. When IT problems occur, they can have a major impact on scheme members. The other drawback is the use of call centres and on-line portals to interface with scheme members that can make it difficult for a scheme member to resolve a query as for example the 'agent' dealing with the query may have little pensions knowledge. A tender that places a high weighting on service quality, demanding KPI and a low allocation to cost may result in a good quality service.

Conclusion

3.27 The recommendation to review the options available to provide pension administration services reflects a view that although small teams such as Tower Hamlets can offer a more personal service to scheme members they can only do this and maintain robust and compliant processes through good fortune (retaining highly experienced and competent staff) and at a high relative cost.

- 3.28 Changing the manner in which services are provided aims to provide greater predictability in the service received by scheme members together with an ability to rigorously monitor the quality of service delivery and increased confidence that the service meets regulatory requirements and has regard for best practice.
- 3.29 Of the two alternatives – multi-authority co-operation and third party outsourcing, the former is preferred as possibly offering the best balance of resilience through scale while not being lost in the crowd. The multi-authority groups are mainly or wholly LGPS focused, their own schemes being LGPS. In addition, their location will aid the retention of existing staff.

Next steps

- 3.30 Should the Committee be content with the proposal to investigate the alternatives above, in-depth reviews of each of the alternatives will be undertaken with proposals made to the next meeting in September.

4. COMMENTS OF THE CHIEF FINANCE OFFICER

- 4.1 The costs of pension administration are paid for from the assets of the pension fund and therefore do not impact directly on the council's General Fund. The paper indicates that the costs associated with changing to a multi-authority provider are unlikely to rise and that the cost per Member of such arrangements are generally lower however, detailed cost estimates have not been sought and will need to be considered before a final decision is reached.

5. LEGAL COMMENTS

- 5.1 The Pensions Committee is required to consider pension matters and ensure that the Council meets its statutory duties in respect of the fund. It is appropriate having regard to these matters for the Committee to receive information from the Pensions Administration team about the performance of the administration function of the pension fund.
- 5.2 Outsourcing Pension functions is likely to have TUPE implications or may result in a redundancy situation depending on the following:
- i) If mobility clauses within the existing employees' contracts do not allow for the employees to work at alternative locations (outside the borough specifically) then the changes to the employees' contracts may be sufficient so as to render those employees potentially redundant and the Council will need to have regard to the consequential cost and/or the loss of skilled employees.
 - ii) The outsourcing of the service to a different provider is likely to mean that staff (subject to point i) above) will transfer pursuant to the TUPE regulations on their existing terms and conditions. Consultation with

staff regarding the transfer and implications for their employment will need to take place in good time in advance of the transfer date

- 5.4 When carrying out its functions as the administering authority of its pension fund, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty).

6. ONE TOWER HAMLETS CONSIDERATIONS

- 6.1 The administration costs of running the pension scheme are a very small part of the contributions paid. An efficient administration function will contain costs over the long term, minimising the costs falling on the scheme employers, including the Council.
- 6.2 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

7. BEST VALUE (BV) IMPLICATIONS

- 7.1 In each case decisions to acquire additional services have followed the Council's procurement procedures. All costs are paid for from the assets of the Pension Fund.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 8.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

9. RISK MANAGEMENT IMPLICATIONS

- 9.1 Risks arising from poor administration tend to be reputational but can include additional expenditure through inaccurate benefits, delays in collecting contribution, fines and interest on late payments. The review of the structure of pension administration has a primary aim of minimising the risk of poor administration and to provide the Pensions Committee with assurance that pension risks are being adequately managed.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 10.1 There are no crime and disorder reduction implications from this report.

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

- Appendix 1 - Current pension administration arrangements for LB

- Appendix 2 - Brief summary of the external administrators

Local Government Act, 1972 Section 100D (As amended)

List of “Background Papers” used in the preparation of this report

- NONE

Officer contact details for documents:

- George Bruce – Interim Pensions Manager x4248
- Mulberry House, 5 Clove Crescent E14 2BG

Current Arrangements for London Borough Pensions

Barking and Dagenham	in-house
Barnet	Capita
Bexley	LPP
Brent	Capita
Bromley	Liberata UK
Camden	PSS
Croydon	in-house
Ealing	LPP
Enfield	in-house
Greenwich	in-house
Hackney	Equiniti
Hammersmith & Fulham	Orbis
Haringey	in-house
Harrow	in-house
Havering	in-house moving to LPP
Hillingdon	Orbis
Hounslow	Capita
Islington	in-house
Kensington & Chelsea	Orbis
Kingston	London Borough of Sutton
Lambeth	in-house
Lewisham	in-house
Merton	PSS
Newham	LPP
Redbridge	in-house
Richmond	PSS
Southwark	in-house
Sutton	in-house - shared with Kingston
Tower Hamlets	in-house
Waltham Forest	PSS
Wandsworth	PSS
Westminster	Orbis

LGPS based Pension Administration Groups

ORBIS

Orbis is the operating name of Surrey and East Sussex Councils' administration function. Orbis provide administration services to two county scheme (Surrey and East Sussex) and four London Boroughs (Hillingdon, Westminster, Kensington and Chelsea and Hammersmith and Fulham.) These schemes have 250,000 members with Orbis employing 80 staff based in Lewis and Kingston.

Local Pension Partnership

The Local Pension Partnership (LPP) is the name given to the working arrangement between the LPFA and Lancashire Council. The partnership covers all aspects of the two authority's pension funds, in addition pension administration services are provided to a further 13 pension funds comprising two counties, three London Boroughs (Bexley, Ealing and Newham) and 8 Police and Fire Authorities. Bexley and Newham are 2/3rds of OneSource and the other participating Council, Havering, is negotiating with LPP, whose client schemes currently comprise approximately 500,000 scheme members and deal with over 1,000 employers. Currently they have 120 staff based in London, Hertford and Preston. LPP also offer ad-hoc service e.g. governance reviews, project support and interim staffing.

Pension Shared Service

Pensions Shared Service is a grouping of five London Boroughs, being Camden, Merton, Richmond, Waltham Forest and Wandsworth. The five councils have collectively approximately 100,000 scheme members. Currently have approx. 35 staff based at Wandsworth. PSS has indicated that it will not be seeking new clients in the next 18-24 months.

West Yorkshire Pension Fund

Based in the Bradford, West Yorkshire Pension Fund currently administers the LGPS for shared service members over 116,000 active members, total membership number over 368,000 and 630 employers. The majority of the membership work for the main 5 Councils within West Yorkshire. They also administer the Fire Pension Schemes as third party administrators, for 7 Fire and Rescue Authorities. Over the last few years WYPF has expanded its administration business by taking on new Fire clients and the shared service partnership with Lincolnshire Pension Fund. They employ 119 administration staff.

Capita

Capita have provided LGPS administration services for over 40 years having been established in 1974 to administer the Water Authorities. They are now the UK's largest third-party pension's administrator, managing the entitlements of approximately four million individuals, over two million of whom are members of UK Public Sector Schemes. In total, they currently administer seven schemes with over

10,000 active members each and administer the benefits of over 200,000 LGPS Scheme Members for a range of clients including:


- Environment Agency
- London Boroughs of Barnet, Brent, and Hounslow
- West Sussex County Council

Capita also administer the Teachers' Pension Scheme which has almost 1.9 million members and a number of Police Forces. Their pension administration service has approximately 1,300 employees. Their main LGPS team is based in Darlington.

Equiniti

The overall scale of Equiniti's business is not known, however they employ 1,675 staff in pension administration across 13 regional offices. LGPS business is handled from Crawley, although the call centre for first contact is located in Birmingham and is unlikely to have significant LGPS knowledge. The only existing LGPS client mentioned is Hackney and the Crawley LGPS team comprises 11 people. Their public sector business included NHS, Armed Forces, Civil Service and Metropolitan Police.

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Non-Executive Report of the: PENSIONS BOARD 31 July 2017	
Report of: Zena Cooke, Corporate Director of Resources	Classification:
LGPS Latest Development and Update: <i>FCA MiFID II Policy Statement on LGPS Classification, Judicial review on DCLG statutory guidance, LGPS Investment Code of Transparency and London Collective Investment Vehicle (CIV)</i>	

Originating Officer(s)	Bola Tobun, Investment and Treasury Manager
Wards affected	All

Introduction

This report provides the Board with an update on general developments in Local Government Pensions Scheme arena and also the progress of the London Collective Investment Vehicle (CIV).

The second Markets in Financial Instruments Directive (MiFID II) builds on the original MiFID and is the framework of European legislation governing investment firms providing certain investment services to clients and the organised trading of financial instruments. MiFID II takes effect on 3rd January 2018 and the proposed changes to the Financial Conduct Authority (FCA) Handbook will have significant implications for LGPS administering authorities.

On 16th May 2017, the LGPS Scheme Advisory Board issued the Local Government Pension Scheme (LGPS) Investment Code of Transparency. The background, nature of the Code and the implications of its introduction are briefly discussed in this report.

The High Court ruled on judicial review that the section on boycotting foreign nations and the UK defence industry in the DCLG statutory guidance on preparing and maintaining an investment strategy statement published in September last year is unlawful. The reason given is that the Secretary of State had exceeded his regulation making powers by using the guidance to protect government foreign policy and UK defence policy, which, in the judges view, were not policies for “pension purposes” The Secretary of State was held to have acted for an unauthorised purpose and therefore unlawfully. Although not expressly referred to in the judgement, the inference is that that part of the statutory guidance referred to in paragraph 1 of the judgement is struck out.

Recommendations:

- Members of the Pensions Board are asked to note the contents of the report which covers the following matters.
 - a) FCA MiFID II Policy Statement on LGPS Classification;
 - b) Judicial review on DCLG statutory guidance;
 - c) LGPS Investment Code of Transparency and
 - d) London Collective Investment Vehicle (CIV).

1. REASONS FOR THE DECISIONS

- 1.1 For effective and efficient management of the Fund.

2. ALTERNATIVE OPTIONS

- 2.1 No alternative.

3. DETAILS OF REPORT

The FCA on Markets in Financial Instruments Directive Implementation - Policy Statement II

- 3.1 Under MiFID II, UK local authorities will be re-classified as "retail" clients as opposed to their current classification of "professional per se" clients. If the local authority retains the retail client classification, it will be restricted in the investment managers it can use and the investments it can make as there are fewer investment managers permitted to deal with retail clients and certain investments are not deemed suitable for retail clients.
- 3.2 The UK regulator has introduced a workaround for the country's local government pension scheme (LGPS) to avoid European rules that could have forced some funds into a potential urgent sale of assets. The Financial Conduct Authority (FCA) published a 1,068-page policy document regarding the implementation of the Markets in Financial Instruments Directive (MiFID II). In it, the watchdog added wording to the rules making it easier for LGPS schemes to be "opted up" to professional investor status.
- 3.3 MiFID II requires all local authorities to be treated as retail clients by their asset managers, which would severely restrict their ability to invest in illiquid asset classes. While it was introduced to protect the treasury management functions of local governments across Europe, it raised concerns within the LGPS that it would hamper efforts to pool assets and boost infrastructure spending.
- 3.4 There is an option for local authorities to opt up to "elective professional" client status with individual asset managers in order to continue 'complex' investments. This procedure will include both a qualitative and quantitative test to be assessed by the asset manager. It is proposed that the opt up criteria will be applied separately for local authorities depending on the

capacity in which they are acting (i.e. either as treasury managers or as pension fund administrators).

- 3.5 After lobbying from the LGPS Scheme Advisory Board, the Local Government Association (LGA) and the Investment Association, the FCA made changes to the “quantitative” and “qualitative” tests for clients to be classified as professional.

Opt Up to Elective Professional Status

- 3.6 The Financial Conduct Authority’s (FCA) policy objective is to provide a clear and straightforward path to opt-up which enables LGPS administering authorities to attain “elective professional” status. This will be achieved via two tests: qualitative and quantitative.

Qualitative Test

- 3.5 ***The qualitative test states that:*** Firms must undertake an adequate assessment of the expertise, experience and knowledge of the client to give reasonable assurance in light of the nature of the transactions or services envisaged, that the client is capable of making his own investment decisions and understanding the risks involved (COBS 3.5.3R(1)) .
- 3.6 ***The existing COBS 3.5.4 states that:*** If the client is an entity, the qualitative test should be performed in relation to the person authorised to carry out transactions on its behalf.
- 3.7 Asset managers must also assess the “expertise, experience, and knowledge” of their clients in order to opt them up to professional status. MiFID II refers to an individual person, but the FCA’s policy statement made it clear that “firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions”.
- 3.8 The regulator added: “Given different governance arrangements, we cannot be prescriptive, but we would stress the importance of firms exercising judgement and ensuring that they understand the arrangements of the local authority and the clear purpose of this test. It remains a test of the individual, or respectively the individuals who are ultimately making the investment decisions, but governance and advice arrangements supporting those individuals can inform and contribute to the firm’s assessment.”
- 3.8 The qualitative test will reference the key officer individual but will make clear that this can include the legal entity rather than just individual persons, i.e., the collective decision making structure can be taken into account (officers, consultants and the decision making committee).

Quantitative Test

- 3.9 The quantitative test (based on COBS 3.5.3R (2)) requires that the criteria in paragraph (a) and one of the criteria in paragraphs (b), (c) or (d) must be satisfied:
- a) the size of the client's financial instrument portfolio, defined as including cash deposits and financial instruments, exceeds £10m
 - b) the client has carried out transactions, in significant size, on the relevant market at an average frequency of ten per quarter over the previous four quarters.
 - c) the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the transactions or services envisaged.
 - d) the client is an administering authority of the LGPS.
- 3.10 It is expected that asset managers will take the opt up questionnaire information at the outset, approve the document if satisfactory, and periodically review the information, probably annually.

LGPS Investment Code of Transparency

- 3.11 On 16th May 2017, the LGPS Advisory Board issued the Local Government Pension Scheme (LGPS) Investment Code of Transparency.
- 3.12 The quoted fee paid to an external asset manager does not represent the full cost incurred by an LGPS Fund when it engages the services of an external investment (asset) manager. There have long been concerns regarding investment management fees. Therefore, the Scheme Advisory Board in consultation with LGPS stakeholders including the Investment Association which is the investment managers trade body, has developed the LGPS Investment Code of Transparency. This is a voluntary Code but it is anticipated that most asset managers, to whom the Code applies will, in due course, sign up to it.
- 3.13 The purpose of the Code is to improve the reporting and understanding of investment management charges and costs. Investment managers who sign up to the Code will report their fees costs and income using standard Templates.
- 3.14 Potentially, the information provided by participating managers has a number of benefits for the Tower Hamlets Pension Fund including a greater ability to challenge investment managers' fees and costs, improved reporting in the Annual Pension Fund Accounts and a greater ability to assure stakeholders that the Fund understands its asset management fees and costs and is in a position to undertake meaningful discussions with its investment managers in relation to this issue.
- 3.15 At present the Code only covers listed assets such as Listed Equities and Bonds. Listed assets however form the majority of the assets of the Tower

Hamlets Pension Fund. The Scheme Advisory Board intends, in due course, to extend the Code to cover unlisted assets. It will however be considerably more challenging to develop Templates for alternative asset classes where fees/cost structures are more complex.

- 3.16 As noted in the independent advisors note the Scheme Advisory Board is considering whether to seek to establish/utilise a third party body to collate and check the data on behalf of LGPS Funds. This would be an independent not for profit body which would enable individual LGPS Funds to receive the asset managers' data in a format they can readily use rather than having to analyse it themselves and recruit/train staff to undertake this task.
- 3.17 However, the capacity to undertake this work should be well within the capacity of individual pools working with individual funds and there is no guarantee that the advisory board has the expertise to commission such work.

The Government rules on Local Government Pension Scheme (LGPS) investments were deemed unlawful.

- 3.18 The investment guidance, issued last September, requires LGPS funds to have policies on environmental, social and governance (ESG) issues but also added they could not pursue policies contrary to central government foreign and defence policy.
- 3.19 The guidance said "pension policies to pursue boycotts, divestment and sanctions [BDS] against foreign nations and UK defence industries are inappropriate, other than where formal legal sanctions, embargoes and restrictions have been put in place by the government" and funds could not "pursue policies that are contrary to UK foreign policy or UK defence policy".
- 3.20 The policy was particularly contentious as LGPS funds and campaigners said this limited their ability to take up ethical investment, particularly BDS action against companies operating in Israeli settlements in Palestine.
- 3.21 A bid was launched in the courts by the Palestine Solidarity Campaign (PSC) to overturn the regulations via a judicial review, where it argued the government had acted outside of its powers, and it was "lacking in certainty".
- 3.22 It also cited Article 18.4 of the EU's directive on the Activities and Supervision of Institutions for Occupational Pension Provision (IORP), which states "member states shall not subject the investment decisions of an institution... to any kind of prior approval or systematic notification requirements".
- 3.23 However, the judgment, issued by judge Sir Ross Cranston only agreed with the first argument, stating the Minister for the Department for Communities and Local Government (DCLG) Sajid Javid had "acted for an unauthorised purpose and therefore unlawfully".
- 3.24 His reasoning was the "guidance has singled out certain types of non-financial factors, concerned with foreign/defence... and stated that administering

authorities cannot base investment decisions upon them. In doing this, I cannot see how the secretary of state has acted for a pensions' purpose".

- 3.25 He stated specifically that this guidance could preclude LGPS funds taking ESG factors into account even if there no "significant risk" of financial detriment or "no good reason" to believe members would object.
- 3.26 Cranston therefore granted a judicial review, meaning the government may have to rethink its approach to the rules if it wishes them to take effect.
- 3.27 DCLG made a statement that the government would consider whether to appeal: "It is an important principle that foreign policy matters are for the UK Government to decide. We will consider the judgement and next steps."
- 3.28 This will mean that the LGPS funds must invest in the best interests of scheme members, as all other pension schemes in the UK must do. The best interests of scheme members are aligned with all sponsoring employers in seeing that their pensions are delivered in the most efficient manner.
- 3.29 The High Court was also asked to judge whether (a) the guidance lacked clarity and certainty and (b) whether Article 18(4) of the 2003 IORP Directive applied to prevent the Secretary of State from imposing a form of approval before investment decisions are made. On both matters, the judge ruled in favour of the Secretary of State.

London CIV Update

- 3.30 The first quarter of 2017/18 has been positive and LCIV has achieved the majority of their quarterly KPI targets. They launched two additional funds, taking AUM just short of £5bn, by having an additional LLA invested directly in one of the sub-fund. (Bexley through the LCIV NW Global Equity Fund, managed on a delegated basis by Newton Investment Management Ltd.).

Q1 2017 Sub-Fund AuM Status

Q1 2017 AuM Status (£Mn)			
FUNDS	30 June Value	MTFS Plan	Variance
London LGPS CIV Global Equity Alpha (Allianz)	691	602	89
London LGPS CIV Global Alpha Growth Fund (Baillie Gifford)	1,674	1,455	219
Lodnon LGPS CIV Diversified Growth Fund (Baillie Gifford)	362	336	26
LCIV PY Gloval Total Return Fund (Pyrford)	225	199	26
LCIV RF Absolute Return Fund (Ruffer)	473	330	143
LCIV NW Real Return Fund (Newton)	346	330	16
LCIV NW Global Equity Fund (Newton 22 May launch)	659	500	159
LCIV MJ UK Equity Fund (Majedie 18 May Launch)	510	530	-20
Longview (to launch in July)	0	450	-450
	4,941	4,732	209

- 3.31 Also reported to be on target to launch are four further funds in the second quarter of 217 with two funds opening in July and two in September.

3.32 LCIV reported that costs are lower than planned at this stage, mainly due to lower staff and facilities costs. They have appointed four additional members of staff and are in discussion with a number of very good candidates and are optimistic that further staff will soon be joining the team; details of the appointments are below.

3.33 To date in 2017/18 LCIV has hired the following:

- a) Chief Risk Officer; this role will cover both risk and performance reporting and LCIV are, therefore, reviewing the role requirement for the AD Investment Oversight & Performance.
- b) Head of Fixed Income & Alternatives; brought forward into Q2 as this asset class has taken a higher degree of urgency and prioritisation.
- c) Client Relations Executive.
- d) Corporate Development Director (New role / 1 year fixed term contract); new role added to structure, but contained within budget envelope, to bring support to the Executive team in delivering key organisational development projects, for example supporting the governance review, client reporting and operating model development.

3.34 LCIV is currently reviewing the roles and requirements of the Q2 planned hires and will revise plans as required. The table below provides a summary status against the Business Plan.

MTFS Plan Hire Dates	Resource	Job Posted	Interviews Initiated	Offer Made	Hire On-Boarded
Q1	Head of Global Equities ¹	✓	✓		
	AD Investment Oversight/Performance ²				
	Client Relationship Assistant (retitled Client Relations Executive)	✓	✓	✓	✓
	Fund Accountant	✓	✓	✓	September
	Systems/Data Manager ³	✓			
Q2	Head of Fixed Income/Alternatives	✓	✓	✓	✓
	Management Accountant				
	Operations Assistant ⁴				
	Project Manager ⁴				
Q3	Head of Real Estate/Infrastructure ⁵				
	Risk Officer (retitled Chief Risk Officer)	✓	✓	✓	✓
Q4	Client Relationship Assistant (retitled Client Relations Executive)				
	Administrative Assistant				

1. Engagement delayed as offer made to initial candidate was eventually turned down
2. Role and requirements under review due to integrating performance reporting into Chief Risk Officer role
3. Role on hold pending wider IT infrastructure and system decisions
4. Role and requirements under review
5. Role being brought forward in plans in light of client demand for products in this areas

- 3.35 The process for recruiting two additional Non-Executive Directors (NEDs) has been completed and LCIV are going through the process to sign contracts and on-board the two successful candidates, Linda Selman and Paul Niven, for a three year term. Both candidates will bring extensive knowledge and experience of investment and fund management and will add additional strength to the Board.
- 3.36 A full Invitation to Tender was released to three potential providers for a Governance review. The purpose of the review is to consider the governance structures associated with the Pooling arrangements for the London LGPS funds as currently undertaken through LCIV and recommend potential improvements to ensure that all stakeholders have the necessary and appropriate level of engagement and influence, and that decision making is correctly positioned and defined. This would take into account the fiduciary, regulatory and statutory responsibilities of LCIV, its directors and officer and the investing LGPS funds.
- 3.37 Responses have been received from two of the three, the third dropped out due to resource constraints and other commitments. Having reviewed the submissions the process for engaging with an independent provider to carry out the review is nearing completion. A Project Steering Committee has been set up to review the submissions and, if content, award the contract at its meeting on 12 July.
- 3.38 The Steering Committee has been established to scope, resource, and oversee the delivery of the London CIV Governance Review project and ensure the project is aligned with stakeholder needs and meets the overall objectives of the review. The Steering Committee will also be the leadership group reviewing the draft final report and recommendations and providing any necessary clarifications to finalise the report.
- 3.39 The Project Steering Committee is responsible for:
- a) Ensuring the project is aligned with all stakeholder needs;
 - b) Establishing the project scope, deliverables and timelines;
 - c) Agreeing the approach for selecting the service provider to complete the governance review;
 - d) Overseeing delivery of the project;
 - e) Resolving any strategic issues or potential scope, timeline or budget changes to the project;
 - f) Reviewing and approving final project deliverables;
 - g) Reviewing recommendations and making proposals for action to the Board, the Pensions CIV Joint Committee and London Councils Leaders' Committee;
 - h) Establishing an effective plan to communicate findings, recommendations and action points to broader stakeholder groups.

- 3.38 The Project Steering Committee comprised of:
- Mark Boleat (City of London) (Chair of the Committee)
 - Lord Kerslake (Vice Chair of the Committee)
 - Eric Mackay (LCIV NED)
 - Cllrs Johnson (Ealing) and Heaster(Wandsworth)(PSJC Party Group Chairs)
 - Ian Williams (Hackney) and Gerald Almeroth (Sutton) (SLT representatives)
- 3.39 It is planned that research will happen through July and August. The draft report and recommendations will be considered by the Steering Committee, this Joint Committee, and the Board, before being presented to London Councils’ Leaders’ Committee as a final report for adoption at its meeting of 10 October.
- 3.40 LCIV had submitted a statement of compliance with the Stewardship Code to the FRC. This has been accepted by FRC as meeting the requirements of a Tier One Asset Owner for the purpose of assessment against the Code i.e. the highest tier for an asset owner. A copy of the Statement can be found on the FRC website: <https://www.frc.org.uk/FRC-Documents/Corporate-Governance/Stewardship-Code/London-CIV.pdf>
- 3.41 For asset managers there are 3 levels of compliance with the Code against which asset managers are assessed. In terms of LCIV’s external managers, both current and those scheduled for sub-fund launch over the coming months, the table below sets out the levels of compliance with the Code:

External Manager	Stewardship Code Compliance Tier	Asset Class	Additional Comments
Allianz	1	Global Equity	
Baillie Gifford	1	Global Equity DGF	
EPOCH	TBA	Global Equity Income	Statement of Compliance submitted to FRC for evaluation
Henderson	1	Emerging Markets	
Longview	1	Global Equity	
Majedie	1	UK Equity	
Newton	1	Global Equity Real Return	
Pyrford	2	Total Return	Manager seeking to upgrade to Tier 1
RBC	1	Sustainable Global Equity	
Ruffer	1	Absolute Return	
Passive Manager			
LGIM	1	Passive Life Funds	External to LCIV platform
BlackRock	1	Passive Life Funds	External to LCIV platform

- 3.42 Members of the Pensions Sectoral Joint Committee has agreed a voting policy which recognises the importance of collaborative working and to use as a basis for voting, the alerts issued by LAPFF in connection with voting. The alerts issued by LAPFF are forwarded to LCIV's external managers and asked to vote in accordance with the alert and for clear explanations to be provided where for wider investment or company reasons they have not followed the alert.
- 3.43 Over the quarter to 30th June 2017, LCIV received 11 voting alerts from LAPFF which were passed across to the LCIV delegated and direct managers for action. The table below sets out the voting alerts received and the manager response. Where they did not vote in line with the alerts, fuller explanations have been sought.

LAPFF Voting Alerts		Equities				DGF/ TRF				Passive LGM
Voting Alert	Date	Allianz	BG GAG	Majedie UK	Newton GE	BGDGF	Pyrford	Ruffer	Newton TR	
Fund Inception Date		02/12/2015	11/04/2016	18/05/2017	22/07/2017	15/02/2016	17/06/2016	21/06/2016	16/12/2016	
Smith & Nephew - Oppose Remuneration Policy	03/04/2017	Nil holdings	Nil holdings	N/A	N/A	Nil holdings	Nil holdings	Nil holdings	Nil holdings	Voted for policy post consideration of issues
GlaxoSmithKline - Oppose pay policy	21/04/2017	Nil holdings	Nil holdings	N/A	N/A	Nil holdings	Vote in line with alert	Nil holdings	Voted for management	Voted for policy post consideration of issues
Wells Fargo - Vote for reviewing business standards	21/04/2017	Nil holdings	Nil holdings	N/A	N/A	Nil holdings	Nil holdings	Nil holdings	Nil holdings	Voted in line with alert
PPL - Vote for providing 2 degree analysis	02/05/2017	Nil holdings	Nil holdings	N/A	N/A	Nil holdings	Nil holdings	Nil holdings	Nil holdings	Voted in line with alert
BP - Vote for pay policy	02/05/2017	Nil holdings	Nil holdings	N/A	N/A	Nil holdings	Voted in line with alert	Vote in line with alert	Nil holdings	Vote in line with alert
EnQuest - Oppose re-election of Chair of nomination committee	08/05/2017	Nil holdings	Nil holdings	N/A	N/A	Nil holdings	Nil holdings	Nil holdings	Nil holdings	Voted in line with alert
Shell - Vote for pay policy	09/05/2017	Nil holdings	Nil holdings	N/A	N/A	Nil holdings	Vote in line with alert	Nil holdings	TBA	Voted in line with alert
Exxon - Climate Change Policy Impact Reporting	17/05/2017	Nil holdings	Nil holdings	N/A	N/A	Nil holdings	Nil holdings	Vote in line with alert	Nil holdings	Voted in line with alert
Chevron - Produce a report on its low carbon transition efforts	17/05/2017	Nil holdings	Nil holdings	N/A	N/A	Nil holdings	Nil holdings	Nil holdings	Nil holdings	Voted in line with alert
WPP - Oppose Pay Policy	19/05/2017	Voted for policy post consideration of issues	Nil holdings	Nil holdings	Nil holdings	Nil holdings	Nil holdings	Nil holdings	Nil holdings	Voted for policy post consideration of issues
Babcock - Oppose Pay Policy	29/06/2017	Nil holdings	Nil holdings	Nil holdings	Nil holdings	Nil holdings	Nil holdings	Nil holdings	Nil holdings	TBA

4. COMMENTS OF THE CHIEF FINANCE OFFICER

- 4.1 The Corporate Director, Resources is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed and that the proposed MiFID II process offers a clear structure to opting up to elective professional status.

5. LEGAL COMMENTS

- 5.1 This report provides an update on a number of general developments affecting the Local Government Pensions Scheme.
- 5.2 Policy statement from the Financial Conduct Authority in respect of the Markets in Financial Instruments Directive II (MiFID II). The statement sets out the final rules for implementation of MiFID II. MiFID II is due for implementation on 3rd January 2018. Local government pensions schemes will be particularly affected by the reclassification of local authorities as “retail” clients rather than their current classification of “professional per se” clients. This reclassification will affect the investment managers they can use and the investments they can make as there are fewer investment managers permitted to deal with retail clients and certain investments are not deemed to be suitable for retail clients. This restriction is at odds with the provisions of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 which dispensed with the explicit limits on specified types of investments and which instead charged administering authorities with determining the appropriate mix of investments for their funds and the requirement to pool their funds.
- 5.3 The FCA has recognised that the reclassification of local authorities as retail clients will not be in the best interests of their pension funds and has given them an option to opt up to “elective professional” client status subject to satisfying certain criteria. The FCA expects the criteria to appropriately balance the ability of local authorities to access the financial services they require whilst securing an appropriate degree of investor protection. It is incumbent upon the local authority as administrators to obtain the best possible investments for the fund and as such it should take up the option to opt up to “elective professional” client status following the process set out in the FCA policy statement.
- 5.4 LGPS Investment Code of Transparency. On the 16th May 2017, the Local Government Pension Scheme Advisory Board (“the Board”) issued the Local Government Pension Scheme Investment Code of Transparency (“the Code”). The Code is a voluntary code which covers the provision of transparent and consistent investment cost and fee information between Investment Managers and Administering Authorities. Investment Managers who sign up to the Code are required to report their information on a template provided by the Board. Investment Managers must sign up to the Code in writing in the form prescribed by the Board. The information provided by the Investment Managers will assist the Committee to meet its statutory obligations in respect of the administration and management of the pension fund.
- 5.5 Government guidance on LGPS Investments. In the case of R on the application of (1) Palestine Solidarity Campaign Ltd (2) Jacqueline Lewis v Secretary of State for Communities and Local Government, the High Court has ruled that, that part of the Secretary of State’s guidance relating to pensions policies to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries (paragraph 3 of regulation 7(2)(e) is unlawful as the S of S had exceeded his regulation making powers by using the guidance to protect government foreign policy and UK defence policy which were not policies for “pension purposes”. The S of S was ruled to have acted for an unauthorised purpose which made the guidance unlawful. The inference is that

this part of the guidance is struck down although this was not made explicit in the judgment. The committee is recommended to review the Investment Statement Strategy in light of this judgment, in particular section 9 of the ISS which deals with environmental, social and governance issues.

- 5.6 When considering the information and issues raised in this report, the Council must have due regard to the need to eliminate unlawful conduct under the Equality Act 2010, the need to advance equality of opportunity and the need to foster good relations between persons who share a protected characteristic and those who don't (the public sector duty).

6. ONE TOWER HAMLETS CONSIDERATIONS

- 6.1 The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment management and performance will reduce the contribution and increase the funds available for other corporate priorities.
- 6.2 A viable pension scheme also represents an asset for the recruitment and retention of staff to deliver services to the residents.

7. BEST VALUE (BV) IMPLICATIONS

- 7.1 The effective and efficient management of Fund assets and achievement of performance targets are key to the achievement of the funding strategy objectives and this is considered to be a good decision which can result in greater cost savings to the fund.

8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 8.1 There is no Sustainable Action for A Greener Environment implication arising from this report.

9. RISK MANAGEMENT IMPLICATIONS

- 9.1 The overall objective of MiFID II is to reduce the risk of mis-selling by the investment industry. By classifying local authority clients as "retail" clients by default, thus requiring the elective professional opt up process, asset managers are required to assess the knowledge of the collective decision making group before taking them on as clients.
- 9.2 The rigorous robust management of LBTH Pension Fund results in better quicker and more effective decision making which can lead to better Fund performance and reduction in the contribution required from the Council towards the Fund. The monitoring arrangement for the Pension Fund and the work of the Pensions Committee should ensure that the Fund optimises the use of its resources in achieving the best returns for the Council and members of the Fund.

10. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 10.1 There are no crime and disorder reduction implications arising from this report.

Linked Reports, Appendices and Background Documents

Linked Report

- NONE

Appendices

Local Government Act, 1972 Section 100D (As amended)

List of “Background Papers” used in the preparation of this report

- NONE

Officer contact details for documents:

- Bola Tobun - Investment & Treasury Manager x4733
- Mulberry House, 5 Clove Crescent E14 2BG

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LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 7.00 P.M. ON THURSDAY, 16 MARCH 2017

TOWN HALL, MULBERRY PLACE, 5 CLOVE CRESCENT, LONDON E14 2BG

Members Present:

Councillor Clare Harrisson (Vice-Chair)
Councillor Gulam Kibria Choudhury
Councillor Andrew Cregan
Councillor Md. Maium Miah
Councillor Candida Ronald
Councillor Andrew Wood
Councillor Rajib Ahmed (Substitute for
Councillor Abdul Mukit MBE)

Union and Admitted Bodies, Non-Voting Members Present:

Kehinde Akintunde – Unions Representative

Other Councillors Present:

None

Apologies:

Councillor Abdul Mukit MBE

Others Present:

John Jarrett	FTSE Russell
Jennie Baruxakis	FTSE Russell
Tessa Younger	Local Authority Pension Fund Forum (LAPFF).
Lara Blecher	Local Authority Pension Fund Forum (LAPFF).
John Jones	Chair of the LBTH Pensions Board

Officers Present:

Neville Murton	(Divisional Director, Finance, Procurement & Audit)
Ngozi Adedeji	(Legal Services, Governance)
George Bruce	(Interim Pensions Manager, Resources)
Bola Tobun	(Investments and Treasury Manager, Resources)
Raymond Haines	(Independent Investment Adviser)
Kevin Miles	(Chief Accountant, Resources)
Zoe Folley	(Committee Officer, Governance)

1. ELECTION OF CHAIR FOR THE PENSIONS COMMITTEE

Members expressed concern about the need to re-elect to the position of Chair of the Committee on the grounds that previous Chair of the Committee, Councillor Andrew Cregan had changed political group. They also expressed concern about the lack of communication about this.

Councillor Cregan also spoke about the achievements of the Committee over the last year. He considered that there had been a lot more positive engagement from Members and stakeholders and he hoped that this would continue.

In view of the above it was

RESOLVED:

1. That the position of Chair of the Pensions Committee be left vacant until the Annual meeting of the Council in May 2017.
2. That Councillor Claire Harrison, the Vice – Chair, chair this meeting.

2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

Councillor Rajib Ahmed declared a personal interest in the agenda items as he was a member of the LBTH pension fund.

3. MINUTES OF THE PREVIOUS MEETING(S)

RESOLVED:

1. The minutes of the previous Pensions Committee held on 7th December 2016 was approved as a correct record, subject to the following amendments:

Inclusion of Raymond Haines (Investment Advisor to Pensions Committee) in the list of attendees.

To record apologies for absence from Councillor Andrew Wood

Minute item 10, Recommendations from Divest Tower Hamlets - the word 'can' to be replace by 'could' in the first bullet point to read:

The recommendations from Divest Tower Hamlets could be included in the 2017 policy statement.

4. PETITIONS

None received.

4.1 Presentation from FTSE Russell-John Jarrett & Jennie Baruxakis

The Committee received a presentation from John Jarrett & Jennie Baruxakis from FTSE Russell about the Future World Fund project. They explained that they were a longstanding global index provider specialising in sustainable development and environmental and social governance (ESG). They worked with companies to measure the transition towards a low carbon green economy and its impact on their portfolios and investment. They produced an index related performance chart, that was set out in the tabled presentation, showing performance in relation to the issues. Some the specific strategies that the organisation employed were highlighted.

In response to questions, the Committee were advised that the formulation of an ESG policy should yield position results for the fund in terms of performance. It was also noted that there had been an increase in green revenues recently in light of the Paris Agreement on climate change. This trend in company activity was expected to continue despite recent international political developments. Care had been taken not to overestimate this figure in respect of green revenue. It was also noted that a number of other schemes and Local Authorities have expressed an interest in the Fund following regulatory change.

In summary, the Committee stressed the need to fully take into consideration all the relevant information and the performance figures of funds/investments, before reaching any decisions given their duties.

The Committee thanked the representatives for their presentation.

4.2 Presentation from LAPFF Tessa Younger & Lara Blecher

The Committee received a presentation from Tessa Younger & Lara Blecher of the Local Authority Pension Fund Forum (LAPFF). They explained the mission of the LAPFF that was to protect the long term investment interest of beneficiaries by promoting the highest standards of corporate governance and corporate responsibility amongst investee companies. They worked with a range of companies (such as BP, Sports Direct and National Express) to promote such values.

In terms of recent work, they had played a key role in formulating shareholder resolutions promoting the use of green measures and to raise employment standards. This had achieved some positive results. They had also engaged with oil companies, such as TOTAL, to promote the use of green technology. They also issued voting alerts to their Members in respect of pay policies decisions and the like. In response, Members welcomed this work and the links between CIV and LAPFF.

The Chair of the Pensions Board, John Jones, shared the Boards views on this issues with regards to the need for more diversity on company Boards and influence over voting rights on executive pay. The Pensions Board had asked LAPFF to look into this. In response, it was noted that LAPFF were taking steps to address these particular issues. In response to further questions, they outlined their approach to investigating potential issues. They explained that they would engage with companies at all levels including management and employees. They might also inspect a company's annual report to identify issues. It was felt that the issues identified at Sports Direct were generally not that common.

The Committee requested that the presentation was circulated to the Committee. The representatives were thanked for their presentation.

5. SUBMISSIONS / REFERRALS FROM PENSION BOARD

The Chair of the Pensions Board, John Jones provided the feedback from the Board's meeting held on Monday 13th March 2017. The meeting considered three major reports and received a presentation from LAPFF engagement about their approach and practices. One particular area of concern was how the Fund and the LGPS could influence share voting by managers on behalf of the fund that should be complicated by the introduction of asset pooling.

The Board also discussed the need for diversity on company boards, requested a presentation on ESG risk factors. They also considered the Pension administration report and made a series of comments on this in relation to the need for adequate resources, regular reporting of activity, the current position regarding GMP reconciliations and the complexities of cessation arrangements. The Board also commented on the draft Investment Strategy particularly the London CIV governance arrangements

The Board also considered attendance of Pensions Committee meeting and training. Mr Jones stressed the importance of Members attending the training and explained that some funds held joint training sessions involving the Pension Committees and Boards and with other Authorities. It was considered that it might make sense to adopt such an approach. The Chair supported this but was also mindful of the fact that daytime training sessions may prove difficult for Members to attend.

The update was note.

6. REPORTS FOR CONSIDERATION

6.1 Report update & Pensions Committee discussion on- Fund recommendations and update on ESG, Fossil Fuels and Low Carbon Approach

Bola Tobun (Investment & Treasury Manager) presented the update. The purpose of the report was to give an update on meetings held in December 2016 and February 2017 to facilitate discussion on the formulation of a cost

effective Fund Ethical, Social and Governance Policy. The Committee were reminded that at the meeting of the Committee in December 2016, the Committee were invited to consider the following recommendations:

- A. To Commit to the UK Stewardship Code.
- B. Develop a policy statement regarding the London Borough of Tower Hamlets' approach to fossil fuel investment with a view to inclusion as a section within the new Investment Strategy Statement (ISS), which is the new name for the current Statement of Investment Principles.
- C. To review options for switching some of the UK passive mandate into a low carbon target index fund.
- D. To Consider options for an initial active investment of approximately 5% of the Fund in a sustainability/low carbon or clean energy fund(s). Given the right risk/return profile, investment in such a fund would demonstrate the Fund's commitment to invest in clean and sustainable companies.
- E. To Monitor carbon risk within the London Borough of Tower Hamlets Pension Fund and to appoint a specialist contractor to conduct a carbon footprint review of the Fund at an estimated cost of between of £5k to £20k.
- F. To continue engagement activities with the Fund's investment managers on their approach to fossil fuel and to promote consideration of climate change issues with managers when making investment decisions.
- G To maintain an active approach to climate change issues with investee companies and look for further opportunities to work with others on issues of ESG importance.

The meeting received a presentation from Divest Tower Hamlets about the merits of divesting from Fossil Fuels. They also heard from Paul Spedding of Carbon Tracker Indicative about the valuation implications of climate change and Clifford Sims of Squire Patton Boggs on fiduciary duty.

At its meeting on the 14 February 2017 the Committee heard from RBC – Nuts and Bolts of Sustainable Equity and Low Carbon Global Equities and FTSE Future World ex CW Climate Balance Factor Index.

Ms Tobun provided an update on the above recommendations. In relation to the first recommendation, Officers had drafted a code for inclusion as part of the new Investment Strategy following the receipts of documents. In relation to the third recommendation, further consideration would need to be given to this following the appointment of the investment consultant to make an informed decision. In relation to recommendation E, it was noted that information on the true costs had now been received. This should help inform the pending review. Recommendations F and G and would be completed in accordance with the relevant requirements.

In response to questions, Members recalled that at the last meeting they requested that a scoping exercise be carried out and for the options to be looked at. No decision had been taken at that meeting.

Overall, Members welcomed the update and specifically expressed a wish for further information in respect of fossil fuels, specific asks especially around mapping, carbon foot print issues and the financial implications of the issues. They also asked for further information on passive and active mandates. Officers confirmed that these issues would be examined in detail as part of the forthcoming review and covered in the new strategy. The timescale for the appointment of the consultants was detailed under minute item 6.8. The consultants were due to commence work on the strategy in April.

RESOLVED:

- 1 To Commit to the UK Stewardship Code.
- 2 Develop a policy statement regarding the London Borough of Tower Hamlets' approach to fossil fuel investment with a view to inclusion as a section within the new Investment Strategy Statement (ISS), which is the new name for the current Statement of Investment Principles.
- 3 To review options for switching some of the UK passive mandate into a low carbon target index fund.
- 4 To Consider options for an initial active investment of approximately 5% of the Fund in a sustainability/low carbon or clean energy fund(s). Given the right risk/return profile, investment in such a fund would demonstrate the Fund's commitment to invest in clean and sustainable companies.
- 5 To Monitor carbon risk within the London Borough of Tower Hamlets Pension Fund and to appoint a specialist contractor to conduct a carbon footprint review of the Fund at an estimated cost of between of £5k to £20k.
- 6 To continue engagement activities with the Fund's investment managers on their approach to fossil fuel and to promote consideration of climate change issues with managers when making investment decisions.
- 7 To maintain an active approach to climate change issues with investee companies and look for further opportunities to work with others on issues of ESG importance.

6.2 Verbal update on Market Outlook and Investment

Raymond Haines (Investment Advisor to Pensions Committee) reported that over the last quarter, the markets generally continued to performance well. In terms of the European economy, there had been a revision in the UK's economic forecast and it was possible that the UK's interest rate may increase. Furthermore, the recent proposals to hold a Scottish Independence referendum could affect the UK markets. The German economy had performed better than expected but still lagged behind the UK. In terms of the US, the recent interest rate rise was noted. As a result of this, the dollar had started to weakened. Furthermore, the new budget contained measures to increase defence spending and reductions in environmental spending that could impact on the markets. In relation to the FTSE market, the quarter witness rapid growth with limited volatility.

As a result, the UK and US markets had hit a record high and consideration could be given to switching funding back to sterling and the Euro.

In response to the presentation, the Committee asked questions about the merits of the Fund investing in property and it was noted that this was a complex issue and there were issues with securing a diverse portfolio due to the size of the portfolio. It was also felt that the merits of investing in infrastructure should be explored. The Committee requested to receive a presentation on this.

It was also explained that should the stock market experience a down turn in performance, (bearing in mind that it had been fuelled by the low value of sterling), the emerging markets should more than compensate for this on the back of such things as the strong performance of domestic companies.

The report was noted.

6.3 Investment Performance Review for Quarter End 31st December 2016

Bola Tobun (Investment & Treasury Manager) presented the report that informed Members of the performance of the Fund and its investment managers for the quarter ending 31 December 2016. The Committee were advised that for the quarter, although the Fund delivered a positive return of 3.1% this fell by 0.6% below the benchmark return of 3.7%.

It was also noted that for this quarter end, six out of the eight mandates matched or achieved returns above the benchmark. Overall, the Fund performance lagged behind the benchmark as a result of poor returns from LCIV (Baillie Gifford) Global Equity, Schroder and GMO. However, it should be noted that the returns from LCIV (Baillie Gifford) have historically been very good.

In relation to page 26 of the report, it was noted that the Funds overall value appreciated by £42m not £84m as stated in the report.

Bola Tobun advised the Committee that the UK Gilts & Indexed linked portfolio has grown and appreciated to the extent that the strategic benchmark weight of this asset class is almost doubled and informed the Committee that this asset is currently very expensive and about a year ago, the independent adviser Mr Haines was encouraging and advising the Committee to look into increasing the Fund position in this asset class as they are ideal matching asset for the fund liabilities. Bola Tobun advised that it is prudent to revise the strategic benchmark to accommodate the current weight of this asset class rather than selling down the position to 3% as having more of these assets in the Fund strengthens the liability hedging ratio of the Fund. The officers and the independent adviser therefore proposed to the Committee to approve 6% strategic weight for this asset class (UK Gilts & Indexed Linked) pending the outcome of the investment strategy review of the fund.

RESOLVED:

1. That the contents of the report be noted and
2. That the current Fund strategic asset allocation as set out at table 4 of section 3.22 of the report be approved.

6.4 Triennial Valuation Outcome & Funding Strategy Statement

The Committee were advised that the report brought the final actuarial valuation outcome to the Committee for adoption of rates and adjustment certificate, which set out the final primary and secondary contribution rates for all the employers of the Fund, attached as Appendix 3 to the report. For the Council the total contribution rate for the next 3 years is 33% per annum.

Also the Funding Strategy Statement (FSS) to the Committee for approval. This statement sets out how the Pension Fund aims to become fully funded over the long term.

In response to further questions, it was noted that employers, who participated in the Tower Hamlets Pension Fund, were invited to comment on the FSS and only one school (Mulberry School) responded with their comments about being classified at a higher probability (70%) of achieving full funding and the perceived implications of having a higher contribution rate compared with the Council having a 66% probability and the school was advised that this was based on perceived risk that future contributions may not be collectable from employers classified under 70% probability.

The Committee was advised also that an employer's forum was held back in January and Schools were advised of the new primary contribution rate of 19.9% of pay effective from 1 April 2017. As this represents a 4% increase on current contribution towards the cost of new benefits accruing, the Council has made the decision not to pass this increase on to Schools immediately; however a phased increase will apply at least over the next 3 years, in a form of 1.5% per annum from 2017/18. As it was also discovered that Schools have not been contributing towards the secondary rate.

The Vice - Chair outlined the key issues, drawing attention to the proposed primary and secondary rate employer contribution rates. She also gave an overview of the current position in respect of academy schools and the local government pension fund. In response to questions about Academy schools, it was noted that they should be in a stronger position as a result of the changes to the deficit payment recovery period.

It was also noted that there was a slight overspend on the estimated budget for completing the actuarial work due to the costs of carrying out further work for reassurance purposes.

RESOLVED:

1. That the 31st March 2016 actuarial valuation report be adopted as set out in Appendix 1;
2. That the Funding Strategy Statement as set out in Appendix 2 be approved;
3. That the draft rates and adjustments schedule/certificate prepared by the Fund Actuary listing all employers' in the Tower Hamlets Pension Fund, primary and secondary contributions payable from April 2017 to March 2020 be adopted as set out in Appendix 3;
4. That the sign off of the Rates and Adjustments Certificate and the implementation of the Funding Strategy Statement be approved

6.5 Investment Strategy Statement**Reason For Urgency / Lateness**

As legislation requires the Council Pension Fund to have an up-to-date approved Investment Strategy Statement (ISS) in place from 1st April 2017, it is necessary for this report to be considered at the March 2017 meeting as the next committee is not until after the financial year has commenced. Final amendments to the report caused it to miss the intended publication deadline.

Bola Tobun (Investment & Treasury Manager) presented the report. She explained the need for the Committee to approve this strategy now, prior to completing the pending Investment Strategy review to comply with the LG Pension Scheme regulations requiring that a new ISS be approved by 1st April 2017.

She explained the main changes to the plans from the old document in relation to the approach to collaborative investment and the setting of a maximum investment limit for a particular asset. There was also a requirement that the statement must comply with the new Secretary of State Guidance.

She also advised that the main reason for circulating an updated version at the meeting is to include a draft statement on the UK Stewardship Code for the Fund in response to FRC acknowledgement to our request.

She also drew attention to the main sections of the attached strategy statement regarding the long terms view, investments objectives, strategy review and strategic benchmark, the restrictions on investment, risk, the pooling of investments and the governance of the LCIV pool.

RESOLVED:

1. That the new Investment Strategy Statement as shown in Appendix 1 be approved.

6.6 Pension Administration Update including Performance Indicators

George Bruce (Interim Pensions Manager) provided the update drawing attention to the key issues in the report. The purpose of the report was to provide assurance that processes were in place to ensure a high quality administration service was provided to Pension Scheme Members and Employers. It was reported that recent staffing changes have impacted on performance. However, the underlying performance issues had now been addressed so the next report to the Committee in 12 months should show much better results in terms performance.

It was also reported that a number of academy schools have recently indicated an intention to join the scheme. It was also expected that a number of Admitted Bodies would join the scheme. A number of employers had recently ceased to participate in the fund. Details of these changes were noted.

It was also noted that there was also a request (as set out in the budget) for additional funding for a Members Self Service System. In response to a question, it was noted that this should improve the efficiency of the service.

RESOLVED:

1. To note the five academies that will join the Pension Fund as new employers and that it be agreed to the participation of Enterprise Limited, provided that the latter signs an acceptable admission agreement and also a satisfactory bond / guarantor (see paragraph 3.20 to 3.25)
2. That the admission of the seven companies appointed to provide home care services be approved provided that they meet the conditions of admission (sign Council's admission agreement, agree to pay contribution calculated by the Scheme Actuary and provide a satisfactory bond or guarantee)
3. That it be noted that the breach of Regulations in connection with the issue of annual benefit statements has been reported to the Pensions Regulator (see paragraph 3.33 to 3.34)
4. That the additional annual costs of £21,000 associated with Member Self-Service and i-Connect (paragraphs 3.59 & 3.66) be approved.
5. That the additional Actuarial costs of £4,000 incurred re GMP reconciliations (paragraph 3.73) be noted
6. To circulate the draft Administration Strategy Statement to employers and delegate authority to the Chair of the Committee to agree any minor amendments prior to publication (paragraphs 3.78 to 3.83).
7. That the extension of the time limit to transfer in service from other pension schemes (paragraph 3.90) be noted.

6.7 Pension Fund Budget Estimate for 2017/18 & Work Plan for 2017/18 - To follow

Reason for Urgency / Lateness

Good practice requires that the Council's Pension Fund considers its budget prior to the start of the financial year; therefore this Committee is requested to consider this report at tonight's meeting as the next committee is not until after the financial year has commenced. Final amendments to the report caused it to miss the intended publication deadline.

Bola Tobun (Investment & Treasury Manager) presented the report that outlined the Work Plan and budget forecasts. It was noted that the total budgeted expenditure (benefits payable) for 2016/17 was £59.0m. Actual expenditure as at the 31st December 2016 was £51.4m and the forecast for 2016/17 was expected to exceed the budgeted figure.

The budget for 2017/18 was proposed at £70.6m. This was partly due to an increase in pension payments and transfer values out and the costs of new projects such as the pending Investment Strategy review.

Bola Tobun also highlighted that due to the investment strategy review for the Fund that will be carried out in 2017/18 which can cost anything up to £30k. For this reason Investment Consultant Fees for 2017/18, has a budget of £80k.

In response, the Chair requested that the savings gained through participation in CIV should be circulated to the Committee.

RESOLVED:

- That the work plan attached as Appendix 1 to this report be agreed
- That the revenue account budget estimate for 2017/18 attached as Appendix 2 to this report be agreed.

6.8 Verbal update on Investment Strategy Review, Review & Procurement of Services

Neville Murton, (Service Head of Finance and Procurement) provided the update on the procurement process to recruit a consultant to assist with the Investment Strategy review. It was scheduled that the interviews with the shortlisted companies would be held on Thursday 23 March at 4pm. The Committee were welcomed to attend this or submit any issues/comments for consideration to himself or Bola Tobun. From early April onwards the successful candidate would be tasked with undertaking the review. The Chair emphasised the need for the Members to be involved in the process. The details of interview would be circulated to the Members.

7. DATE OF FUTURE MEETINGS

The calendar of meetings for the new year would be agreed at the Council meeting on 22 March 2017.

8. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

None.

9. RESTRICTED MINUTES

1. The restricted minutes of the Pensions Committee held on 7th December 2016 was approved as a correct record subject to the following amendments:

Inclusion of the following in the list of attendees:

- Inclusion of Raymond Haines (Investment Advisor to Pensions Committee)
- Neville Murton, (Service Head of Finance and Procurement)

To record Apologies from Councillor Andrew Wood

The meeting ended at 9.50 p.m.

Vice Chair,
Pensions Committee

By virtue of paragraph(s) 1, 2, 3, 5 of Part 1 of Schedule 12A of the Local Government Act 1972.

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