LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 7.30 P.M. ON THURSDAY, 21 FEBRUARY 2013

COMMITTEE ROOM C1, 1ST FLOOR, TOWN HALL, MULBERRY PLACE

Members Present:

Councillor Motin Uz-Zaman (Vice-Chair, in the Chair)
Councillor Abdal Ullah
Councillor Marc Francis
Councillor Peter Golds (designated deputy for Councillor Craig Aston)

Admitted Bodies, Non-Voting Members Present:

John Gray – Non-Voting Member (Admitted Body)

Others Present:

Barry McKay (Chair of the Investment Panel)

Officers Present:

Jill Bell	–	(Head of Legal Services (Environment), Legal Services, Chief Executive's)
Anant Dodia	–	(Pensions Manager)
Alan Finch	–	(Service Head Financial Services, Risk & Accountability, Resources)
Oladapo Shonola	–	(Chief Financial Strategy Officer, Resources)
Antonella Burgio	–	(Democratic Services)

<u>Councillor Motin Uz-Zaman, Vice-Chair in the Chair</u>

1. APOLOGIES FOR ABSENCE

Apologies for absence were received from the Chair, Councillor Zenith Rahman and Councillor Craig Aston. Councillor Peter Golds attended as substitute for Councillor Aston.

2. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

Councillor Marc Francis declared an interest in that he was a member of the Council's pension scheme.

3. UNRESTRICTED MINUTES

The minutes of the meeting held on 15th November 2012 were presented for approval. John Gray advised of an error in that his attendance and that of Frank West had not been recorded and asked that the minutes be amended to reflect this. No other factual corrections were requested.

RESOLVED

That, subject to the above amendment, the minutes of the Pensions Committee held on 15 November be approved.

4. UNRESTRICTED REPORTS FOR CONSIDERATION

4.1 Report on Fund Liquidity

Alan Finch, Service Head, Financial Service, Risk and Accountability and Interim Section 151 Officer presented to the report which asked Committee to give delegated authority to officers to withdraw cash as required.

Mr Finch advised the Committee that during the forthcoming 12-18 months the balance of the Council's pension fund transactions would move towards collecting less cash and paying out more cash. This was a normal progression as the fund moved toward maturity and Members were advised that the pension fund, presently, was maturing faster than previously anticipated, causing a shift in the fund's cash-flow position.

To meet the anticipated cash short-fall, the Fund, in the short-term, would require access to funds to pay out benefits and, in the long-term, a review of the investment strategy would also be required.

The options available to improve short-term fund liquidity were presented at paragraph 6 of the report. Of these, the option to use income generated from invested assets was preferred as its impact on the fund was least. It was proposed to access cash through two streams of income; by recalling the dividend from GMO mandate and using rental income from Schroders property fund.

These two fund managers had been selected as the pension fund received rental income from Schroders and GMO was not a pooled fund therefore equities could be easily withdrawn and fees avoided.

In considering the proposal, Members noted the following matters:

- the maturity of the fund had been accelerated by a reduction in contributions from its members; this had brought forward the date of movement towards negative cash flow. In previous years, projected maturity calculations had indicated maturity 3-4 four years hence. In the last year, numbers contributing to the pension scheme had decreased and those drawing pensions had increased accelerating the move towards negative cash-flow. At present it was estimated that this would occur in 12 - 18 months' time.

- the transition from positive cash flow to negative cash flow was a natural part of the life cycle of pension funds. In this case fund maturity was approaching sooner than had been anticipated and therefore the time was appropriate to approach the committee to request authority to release cash.

- the rationale for the choice of fund managers (GMO and Schroder) was not connected with the underperformance of these managers. Mr Finch noted that these managers had been reviewed by the Investment Panel recently and it had been concluded that they were doing what they were supposed to as part of the overall pension fund strategy. These managers had been chosen however, because they provided a ready source of cash and avoided transaction costs that would be incurred if other options of cash release were selected.

- Noting that diverting this income from the fund would affect the balance of the fund, the Committee enquired how equilibrium in the fund strategy would be re-established and was advised that it would be necessary to review the funding strategy in the longer term. However in the shorter term the amount to be drawn down would not affect the fund.

- the Fund was presently liquid; however the report had been brought to Committee for a decision to ensure cover if the Fund should become cash flow negative earlier than expected.

- the measure was intended to be a short-term measure. Mr Finch advised that while the pension fund was young (i.e. in large surplus) monies from investments could be given to managers for re-investment but as the fund matured this fund would be required to pay out benefits. In the past it had not been necessary to request approval for the recall of monies from the fund because the fund was heavily in surplus.

The Committee raised a number of concerns relating to cash flow and received the following advice:

- some reduction in cash flow had resulted from freezing employee salaries in the last three years however the reduction of members contributing to this scheme during that period had had a larger effect on cash-flow.
- Mr McKay advised that a cash flow negative situation did not constitute a crisis as the fund continued to receive income and was able to pay out monthly commitments. He noted also that five years ago later maturity had been expected. However the dynamics had changed nationally because of the financial crisis of recent years. He advised that the authority had anticipated this change.

- Mr Shonola advised that two years ago the fund had received £42 million and paid out £32 million leaving a surplus of £10 million. However last year due to staff reductions income had reduced to £3.7 million.

- the Committee was asked to approve that the income from these investments be retained as a short-term measure as this was the best of the options available.

- the sums that might be needed were not known at present; however managers would only be instructed to recall funds required to meet identified liabilities.

Members were concerned that the decision might be used as an unlimited agreement and therefore subject to abuse. They were advised that the request had been made to provide a short-term only solution to fund liquidity; the whole of the funding strategy would be reviewed following the scheduled triennial actuarial valuation. At this time a full report would be brought to Committee. Additionally a quarterly report would be brought to Committee.

At the Vice-Chair's request, it was agreed that written response would be given detailing how the expected negative cash flow had evolved.

RESOLVED

That the recall of dividend and rental income from fund managers GMO and Schroder into the LBTH pension fund bank account to help meet the cost of in-year liabilities be approved

4.2 Review of Internal Control Reports in 2012/13

The Chief Financial Strategy Officer presented the report which summarised the findings of a review of the adequacy of internal control measures put in place by Fund Managers which hold the Council pension fund's assets in management.

Members noted the review undertaken which was highlighted at a paragraph 6 of the report. The Chief Financial Strategy Officer reported that exceptions which had been revealed in the review had been investigated with the relevant Fund Managers. Officers were satisfied that these had not revealed any significant change in risk to the pension fund.

RESOLVED

That the report noted.

4.3 Report of Investment Panel for Quarter Ending 30 September 2012.

The Chief Financial Strategy Officer noted that figures reported were for the quarter ending 30th September 2012 and advised that the latest position would be reported verbally. He and Mr Woodman spoke to the report.

Members were advised that:

- overall, the fund was outperforming by one base point.
- six of the eight managers had outperformed. The two underperforming managers had previously been reported to the Committee and reasons for the underperformance reviewed.
- part of the fund management strategy was to diversify the fund therefore some underperformance was anticipated.
- Fund performance in the quarter was solid and targets had stayed in line with what was expected in the strategy.
- the Fund value was £854 million.
- only Schroeder had not outperformed benchmark during the quarter.

RESOLVED

That the report noted.

4.4 Report on Pension Fund Work Plan

The Chief Financial Strategy Officer presented the report which gave Members forward notice of reports to be presented to Committee and the decisions required. Paragraph 6 of the report outlined the action plan.

Co-opted Member, John Gray noted that Lord Hutton's Report arising from the work of the Independent Public Service Pension Commission was presently being read by the House of Lords. He advised that subject to its outcome, this might generate training requirements for the Pensions Committee. The Vice-Chair noted this matter and asked that a review report be brought to each future meeting to advise Members of any changes arising from the Lord Hutton's Report.

RESOLVED

1. That the report to be noted

4.5 Recovery of Pension Fund Deficit Contribution - Academy Conversion

Jill Bell, Head of Legal Services - Environment presented the report advising the Committee that two maintained community schools which have received an Academy order have applied to join the Council's Local Government Pension Scheme (LGPS). Members were advised that, because academies were scheduled bodies, admission to the pension scheme for non-teaching staff was mandatory; however the Council could exercise discretion on the length of recovery deficit to period it wished to set and whether to allow pooled arrangements.

It was noted that the Old Ford and Culloden Primary schools would convert from maintained community schools to a Multi-Academy Trust. Members were asked to note the actuarial assessment and actuary's recommendations contained in the appendices to the report and were advised that a representation had been submitted by each of the schools; these were circulated as a supplementary agenda.

Mr Barry McKay, actuary on behalf of Hymans Robertson addressed the Committee. He spoke on issues discussed in the appendices to the report and responded to the issues raised in the schools' representations.

He advised the Committee that in November 2011, two other schools had converted to academies at which time the Committee had agreed a 14 year deficit recovery period. This period was chosen as a compromise between the 20 year deficit recovery period normally applied to councils and the seven-year Government backing given for school academies.

Noting the projected future working lifetime of these new organisations he advised that it was appropriate to look at the age profile of academy non-teaching staff noting that, by design, academies will have more independence from the local authority and are therefore deemed more risky. In view of these factors it would be more prudent to recoup the debt more quickly. Mr Finch, (Interim S151 Officer and Service Head Financial Services, Risk and Accountability) also noted that Government guidance on this matter, whilst suggesting support, did not guarantee liabilities. Since, academies were independent schools, the local authority would no longer be in a position to guarantee liabilities. The normal twenty-year recovery period enjoyed by the authority was a concession by the actuary based on the authority's tax raising powers.

In regard to risk. Cllr Golds argued that having created academy schools the Government would inevitably ensure that they were guaranteed. Ms Bell advised that, as trustee, the Pension Committee was charged to consider the interests of the pension fund members noting that admission of this new body would have an impact on the pension fund. She advised that academies could furthermore stipulate their own pay policies which would bring risk to the fund should an academy become insolvent. Additionally the Secretary of State had had opportunity to give a guarantee but had not done so. Mr Mckay advised that non-teaching staff were exposed other risks noting that if an academy should become insolvent these staff would not automatically be employed by a successor body and so exposure to risk was greater. Cllr Golds maintained that the Government would inevitably guarantee education and, since academies are also funded by the Government, the collapse of academies would also render state schools open to collapse. Cllr Francis argued that it was necessary to guard against pressures on the pension fund as, while he did not anticipate academies to become bankrupt, it could occur that pensions commitments in succeeding independent schools regimes would not be honoured.

Mr McKay advised that the Committee could opt to set a different recovery period which could be reviewed every three years. He noted that the Council's deficit was spread over 20 years to make the contribution rates affordable and recommended the Committee did not start with the worst-case scenario but that the deficit recovery period be reviewed subsequently.

In response to Members' questions, the Committee was advised that:

- the deficit recovery had no bearing on employee contributions
- the two schools which had previously converted to academies had not questioned the arrangement or challenged the period. However one academy had raised the matter of the rates set with the Secretary of State
- free schools were not scheduled bodies and therefore the local authority could operate closed arrangements for their admission into its pension scheme. Free schools would be able to apply to be admitted into the fund if they wished but would not be obliged to so. However, since academies were scheduled bodies, they were entitled to be admitted into the pension fund
- the application related to non-teaching staff only
- it was noted that if the calculation were to have been made in January 2013 the rates would be higher than those were the result of the calculation made two years ago
- the calculation comprised two elements; the first was a standard rate of 20% and the remainder (which in this case comprised 12% of the final value) was dependent on the recovery period set. Hence, even if a longer deficit recovery period had been set, it could not have been expected that the contribution rate derived would be significantly lower

After these discussions, Members considered the proposal that the recovery period be set at 14 years and agreed that this period was approprieate.

RESOLVED

1. That a deficit recovery period of 14 years for the amount of deficit attributable to active transferring members and that attributable to deferred pensioner members of the LBTH Local Government Pension Scheme for Old Ford primary school and Culloden primary school on the creation of the Multi-Academy Trust be approved

5. ANY OTHER UNRESTRICTED BUSINESS CONSIDERED TO BE URGENT

5.1 Training Dates

The Chief Financial Strategy Officer highlighted forthcoming training opportunities circulated at agenda item 5.1 that were available to Members of the Pensions Committee.

RESOLVED

1. That the training opportunities be noted
2. That this item be included as a standard item in all future agendas

The meeting ended at 8.35 p.m.

Vice-Chair in the Chair, Councillor Motin Uz-Zaman
Pensions Committee