

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 6.40 P.M. ON WEDNESDAY, 16 JULY 2014

**ROOM MP702, 7TH FLOOR, TOWN HALL, MULBERRY PLACE, 5 CLOVE
CRESCENT, LONDON E14 2BG**

Members Present:

Councillor Clare Harrison	(Chair)
Councillor Andrew Cregan	
Councillor Ayas Miah	
John Gray	Non-Voting Member (Admitted Body)
Councillor John Pierce	(Substitute for Councillor Rajib Ahmed)

Admitted Bodies, Non-Voting Members Present:

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

Officers Present:

Anant Dodia	– (Pensions Manager)
Kevin Miles	– (Chief Accountant, Resources)
Bola Tobun	– (Investments and Treasury Manager, Resources)
Graham White	– (Interim Head of Legal Operations)
Chris Holme	– (Acting Corporate Director - Resources)
Antonella Burgio	– (Democratic Services)
Nishaat Ismail	– (Committee Officer, Democratic Services, Directorate Law Probity and Governance)

Apologies:

Councillor Rajib Ahmed, Councillor Abdul Asad, Councillor Shafiqul Haque and Councillor Harun Miah

APPOINTMENT OF CHAIR FOR THE MEETING

The Chair has given apologies, therefore the Committee was asked to appoint a Chair for the meeting.

Councillor John Pierce nominated that Councillor Clare Harrison be appointed Chair of Pensions Committee in the absence of Councillor Rajib Ahmed and the nomination was seconded by Councillor Ayas Miah. There being no other nominations, it was

RESOLVED

That Councillor Clare Harrisson be appointed Chair of Pensions Committee for the duration of the meeting.

PAUSE TO READ URGENT REPORT

The Chair, decided to pause the meeting to allow Members to read an urgent report. And it was

RESOLVED

That the report be presented as an urgent business due to being in breach of statutory duty.

1. DECLARATIONS OF DISCLOSABLE PECUNIARY INTEREST

No declarations of disclosable pecuniary interests were made.

2. MINUTES OF THE PREVIOUS(S) MEETINGS

The minutes of the meeting held on 25th February 2014 were deferred by the committee to be approved at the next Committee.

VARY ORDER OF BUSINESS

The Chair received a request to vary the order of business. Accordingly the Chair moved and it was

RESOLVED

That item 4 "Training and Development for Members be considered before item 3.5, the Report of the Investment Panel to 31 March 2014.

3. REPORTS FOR CONSIDERATION**3.1 Pensions Committee Terms of Reference, Membership, Quorum and Dates of Meetings**

The Clerk presented the report which asked the Committee to note the terms of reference, membership of the Committee, as appointed at Annual Council, quorum and meeting dates of the Pensions Committee for the municipal year.

RESOLVED

That the Terms of Reference, membership, quorum and meeting dates of the Pensions Committee be noted.

3.2 Confirmation of Trade Unions and Admitted Bodies Representatives of the Pensions Committee 2014-15

The Clerk presented the report, advising Members of the continued endorsement of John Gray (Admitted Bodies Representative) and Frank West (Union Representative) by their respective nominating bodies and their reappointment, at Annual Council, as non-voting co-optees of the Pensions Committee for the municipal year

RESOLVED

That the continued endorsement of John Gray (Admitted Bodies Representative) and Frank West (Union Representative) as non-voting co-optees of the Pensions Committee for the municipal year 2014-15 and their reappointment at Annual Council on 11th June 2014 .

3.3 Composition of the Pension Fund Investment Panel

The Clerk presented the report advising the Committee that, under its Terms of Reference, it was required to establish an Investment Panel annually comprising all Members of the Pensions Committee or their designated deputies. An Investment Professional as Chair' an Independent Financial Advisor, the Corporate Director of Resources or his designated deputy. The terms of reference also stipulated that up to two Trade Union representatives (or their designated deputies) as nominated by the Staff-side Secretary attend the Investment Panel as observers.

In addition to membership, the Committee was asked to establish terms of reference of the Investment Panel as set out in Appendix 1 and invited to attend its meeting which was to take place at the rising of Pensions Committee.

RESOLVED

1. That an Investment Panel be established.
2. That membership of the Investment Panel comprise:-
 - All Members of the Pensions and Accounts Committee or their designated deputies.
 - A Investment Professional as Chair
 - An Independent Financial Advisor
 - The Corporate Director of Resources or his designated deputy.
3. That that up to two Trade Union representatives (or their designated deputies) be nominated by the Staffside Secretary attend the Investment Panel as observers.
4. That the terms of reference for the Investment Panel as set out in Appendix 1 be approved.

3.4 Training and Development For Members

The Investment and Treasury Manager introduced the report, which asked Members to consider a training and development programme in the context of required good governance, fund framework, regulations and guidance with which the fund must comply.

The core technical areas and areas of knowledge that prescribed how the Committee discharged its work and the prerequisite knowledge necessary were set out in appendix 1.

Members noted the following matters:

- The Pension Fund was 72% funded and was therefore in deficit. A strategy exists to target full funding for the Scheme in 20 years.
- Actuarial reviews utilised differing discount values and there was a strategy in place to meet the required payments necessary to be made.
- Pension Funds were long term in their nature, therefore they were required to ensure that funding was sufficient to meet its payment obligations at the time payments were required.
- Pension Fund deficits were calculated on long-term bases and these were affected by many financial circumstances. The deficit presently reported was not unusual in the LGPS and a plan had been formulated to return it to full funding.
- There was an ESG requirement and stewardship responsibilities therefore these would need to be a key part of the skills possessed by Pension Committees.

RESOLVED

1. That the CIPFA pensions finance, knowledge and skills framework, technical guidance for elected representatives and non-executives in the public sector (2010) as the basis for its training and development programme be adopted.
2. That officers be charged to prepare a programme of training and development, to be presented at the next meeting of Pensions Committee.

3.5 Report of the Investment Panel to 31 March 2014 & LGPS Discussion

The Investment and Treasury Manager presented the report circulated at agenda item 3.5 which informed Members of the performance of the Fund and its investment managers in the quarter ending 31 March 2014. The Committee heard that:

- The fund value was £1,016M
- The pension scheme was likely to be in the region of 75% funded presently (improved from the valuation position) and there had been good performance during the year.

- The scheme contained rebalancing and diversification mandates to take advantage of outperformance and also diversify risks.
- Performance of Investec had been low and Members were advised that this manager had taken a very defensive position.
- Schroders had performed poorly in recent times and had been on close watch.
- Remedial proposals would be brought to the Committee if poor performance were to continue.

LGPS new governance arrangements-discussion

The Chief Accountant introduced the report asking the Committee to note

- That the Act required that local pensions scrutiny boards were established.
- The secretary of state for communities and local government's consultation on the LG PS Amendment regulations 2014 on the draft scheme of governance regulations.

Common Investment Vehicle

The Committee was informed that in addition to new governance arrangements, a consultation on opportunities for collaborative cost savings and efficiencies had been published by DCLG, which was circulated at appendix D of the report. This is aimed to achieve cost savings in conjunction with active and passive investment managements.

It was noted

- That the Council was considering whether to enrol in the Collective Investment Vehicle (CIV). The Committee in 2014 recommended to Cabinet that the Council acquire share capital in a private limited company to be set up to become the operator for the CIV and officers were presently awaiting advice of managers on proposals for what investment options were available.
- The inception of the CIV was to be part of its executive functions
- The CIV could potentially provide economies of scale to be achieved.

In response to Members questions the following information was provided:

- Concerning whether the pensions board would supersede the pensions Committee, Members were informed that the establishment of the pensions board would not affect the pensions Committee or its powers but the role of the Board would be to scrutinise the work of pensions Committee.
- Concerning whether the pensions board and the Committee could be combined into one body the Committee was informed that the secretary of state must approve such a proposal and this option was not favoured. Additionally there were complex rules around membership of the pensions board.

The acting Corporate Director Resources agreed to circulate an overview document to member following the meeting relating to these two consultations

RESOLVED

That the report be noted.

4. TRAINING EVENTS/ MARKET UPDATE

The Committee received a joint presentation from the Investment and Treasury Manager and the Independent Financial Adviser and a paper was tabled discussing objectives, reasons for asset classes and strategies. These measures combined would enable assets to be invested so that benefits could be paid as they fell due.

The following were noted:

- The span of a pension scheme was 80-100 years therefore it was necessary to ensure asset growth in order to meet the payments that would be required.
- The investment plan was required to take into account the investment strategy and contribution rates to meet the benefits that would need to be paid.
- General life expectancy was greater therefore the LGPS would be required to make greater payments to its members.
- Concerning whether mapping had been done to assess the effects of the new LGPS, the Committee was informed that the new scheme would be based on new rules but the deficit was affected by old rules which would not be affected by the implementation of the new LGPS.
- There would be a change in the accrual rate that would benefit low earners and also comprised a tiered rate of contributions.
- The present asset level was insufficient for the payments that would be required therefore it is necessary to make deficit contributions.
- Diversification of investments was the method employed to reduce overall levels of risk.

Matters concerning the nature of the investments and asset classes was discussed and the following were noted:

- Property investments tended to be in the categories of industrial property as these provided suitable returns. Investment in social housing schemes generally provided poor returns and therefore were not preferred.
- Concerning whether the LGPS invested in arms, the committee was informed that some clear guidelines on ethical investments were given to managers, but on the whole, investments were made on the basis of enhancing return. The Committee heard that the legal view concerning the nature of the investments was that pension schemes had a

fiduciary duty and could not make decisions that would potentially damage returns. It was noted also that managers have an ethical position on the investments.

- Decisions on what the investment priorities would be were determined by the Investment Panel by interviewing investment managers. Additionally Tower Hamlets was a Member of the London Authorities Pension Fund Forum a body which discusses and researches pensions' issues and ethical matters. It was noted that the Pensions Committee of the previous municipal year had made a statement to managers that unethical investments should be discouraged
- The allocation of investments across the classes reflected general local government investment trends and diversification.
- Concerning whether the fund could be diversified into different types of equities or bonds, the Committee was informed that the allocation was diversified into worldwide stocks and global equities. Additionally it was noted that there was a rebalancing mandate between equities and bonds
- Bond yield were presently very low
- The investment manager structure was a mix of passive and active managers
- Diversified funds contained a range of elements and provided a diversified pool of investments. It was noted that diversified funds contained a range of elements and provided a diversified pool of investments. It was noted that diversified funds were presently very defensive as some market adversity was anticipated in the near future.
- Tracker investments track the stock markets both up and down and therefore it was necessary to balance active and passive investments.

The Chair requested that a list indicating where funds were invested be brought to a future meeting.

Action: Bola Tobun

RESOLVED

That the presentation and discussion be noted.

5. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

Updated exercise of discretions under the Local Government Pension Scheme

The Service Head of Human Resources and Workforce Development introduced the report apologising that it had been necessary to table the report as an urgent item.

He presented the report, which asked Members to determine which discretions under the local government pension scheme it wished to adopt or not to adopt. The report recommended the following:

- That the 4 discretions previously agreed in 1998 and 2008 be continued
- Not to adopt the new discretion introduced under the LGPS regulations 2013 pending a full review of the discretions.

It was noted that the discretions applied to voluntary retirements but not to employees made redundant.

RESOLVED

That the proposals be agreed with a full review in six months.

The meeting ended at 8.35 p.m.

Chair, Councillor Rajib Ahmed
Pensions Committee