

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSIONS COMMITTEE

HELD AT 6.00 P.M. ON THURSDAY, 25 MARCH 2021

ONLINE 'VIRTUAL' MEETING - [HTTPS://TOWERHAMLETS.PUBLIC-I.TV/CORE/PORTAL/HOME](https://towerhamlets.public-i.tv/core/portal/home)

Members Present:

Councillor Kyrsten Perry (Chair)
Councillor Rachel Blake (Vice-Chair)
Councillor Ayas Miah
Councillor Helal Uddin
Councillor Puru Miah
Councillor David Edgar
Councillor Andrew Wood

Union and Admitted Bodies, Non-Voting Members Present:

Kehinde Akintunde – GMB Union Representative
Colin Robertson – Independent Advisor
Steve Turner – Mercer

Others Present:

Sam Yeandle – Senior Investment Analyst
Barry Dodds – Hymans Robertson LLP Actuary

Officers Present:

Miriam Adams – Interim Head of Pensions and Treasury
Kevin Bartle – (Corporate Director, Resources and Governance and Section 151 Officer)
Hitesh Jolapara – (Interim Divisional Director, Finance, Procurement & Audit)
Amy Mills – Senior Lawyer Civil Litigation
Joel West – (Democratic Services Team Leader (Committee))

1. DECLARATIONS OF INTERESTS

There were no pecuniary declarations of interest declared at the meeting by members.

2. UNRESTRICTED MINUTES OF THE PREVIOUS MEETING(S)

The unrestricted minutes from the 19th November 2020 were agreed to be an accurate record of the meeting and were approved by the Committee.

3. PETITIONS

No Petitions relating to the matters for which the Committee is responsible had been received by Officers.

4. SUBMISSIONS / REFERRALS FROM PENSION BOARD

Mr John Jones, Chair of Pensions Board presented his report stating the Pensions Board had met on Monday, 22nd March 2021. He said the Board had a productive meeting examining several issues that were on the Committee agenda. Mr Jones said the Board had received a presentation and training session on the development of an investment strategy and this was well received by Board Members. He said a good discussion had taken place about this and the updated ESG sections were particularly welcomed. A request had been made for the London CIV and those responsible for its performance and monitoring to attend a future meeting of the Board.

Mr Jones continued stating the Board had suggested time scales be included on the employer resolution procedure report, so it was clear for those responding and reporting back to whoever had complained or raised a query on how long it would take to resolve their complaint. Mr Jones said the risk register was a standard item on the Pension Board agenda and said the reporting arrangements had improved. He said most of the red risks related to pension administration. One issue that was discussed related to admitted bodies and if they had a bond or guarantee in place, in the event of any employer becoming insolvent.

A discussion took place on the current position of pensions administration. Mr Jones said quite a lot of progress had been made in the recruitment of interim staff and addressing the backlog issues. However, there was an on-going concern the recruitment and retention of staff had been a slow process and said that Officers should be supported and assisted with this.

Mr Jones informed the Committee the Head of Internal Audit, Fraud and Risk had attended the meeting and had stated there was good practice in place on the systems used in pensions administration, with improvements being made since their last report. Mr Jones said a 'limited' assurance was given due to issues relating to reconciliations between the output from the payroll system and the inputs on the Pension Fund account. Mr Jones said the Board had asked for a further report later in the year once a further audit had been done.

Lastly, the voting and engagement report was discussed, and concerns were raised on how this operates and whether policies adopted by the council are adhered to by managers who administer the fund on behalf of LGPS.

There were no questions from committee members for Mr John Jones.

The Pensions Committee **RESOVLED** to:

1. Note the report of the Pensions Board and the issues raised therein.

5. REPORTS FOR CONSIDERATION

5.1 Revised Pensions Committee Terms of Reference

Ms Miriam Adams, Interim Head of Pensions and Treasury, stated that the terms of reference had been reviewed and revised as per the request made by the Committee at its November 2020 meeting. She said the changes included the addition of the Committee's role in ESG and risk management and its relationship with the Pensions Board. Ms Adams referred members to the terms of reference appended to the report.

In response to questions from Members the following was noted:

- The terms of reference should also include the working relationship with the London CIV and/or pooling in general.
- **ACTION:** The updated terms of reference should make reference to its relationship with external stakeholders and the pooling of funds and once updated, the Terms of Reference should be approved by the Chair of the Pensions Committee before being referred to Full Council.

Following the Committee's resolution, the recommendations were amended and then approved.

The Pensions Committee **RESOLVED** to:

1. Note and comment on the revised Terms of reference (Appendix A);
2. Approve the revised Terms of Reference, subject to the addition of the point on pooled funding;
3. Delegate to the Investment Manager to approve the final wording of the TORS, following consultation with the Chair of the Pensions Committee and for them to be presented at the earliest possible Council meeting;
and
4. Note that the relevant sections of the Council's Constitution will be updated.

5.2 PENSIONS COMMITTEE WORK PLAN FOR MARCH 2021 AND DRAFT PLAN FOR 2021-22

Ms Miriam Adams, Interim Head of Pensions and Treasury stated the work plan was a fluid document to which items of work were added as and when they arise. Attached to the agenda was the work plan for the current meeting and the draft workplan for the municipal year 2021-22. Ms Adams stated member training was in-built into the programme and would be provided where appropriate. She asked the Committee to note the workplan.

The Pensions Committee **RESOLVED** to:

1. Note the work plan for the current meeting and the work-plan for 2021-22.

5.3 Member Training - FSS and new changes

Mr Barry Dodds from Hymans Robertson LLP gave a presentation outlining the changes in regulations, and the potential impact, from a funding perspective on the funding strategy and the revised funding strategy statement (FSS), appended at item 5.4.

Mr Dodds referred to the McCloud judgment and explained the timeline of events relating to the ceasing of the final salary schemes and the move to CARE schemes, plus the legal challenges which led to the McCloud judgement. Mr Dodds explained how the McCloud remedy would affect Members, the Fund and Employers.

Mr Dodds provided a detailed explanation relating to the Goodwin case, which was another legal case relating to sex discrimination and benefits paid to spouses. He explained how the change in law in 2005 regarding same sex relationships led to an imbalance in entitlement for couples whose female beneficiary had a male spouse. He said Pension schemes would be required to review all survivor pensions awarded to male survivors of female members who have died since 2005. Mr Dodds explained the impact on funding administration was minimal but depended on the number of cases found. He said the FSS had been updated to show this would have a small impact.

In addition to this Mr Dodds explained the changes made by regulations issued in September 2020 and the management of employer risks. He said more flexibility had been introduced in terms of contribution rates, cessation of employers and exit credit policy.

In response to questions and comments from member the following was noted:

- Councillor Edgar commented on the useful presentation and clear explanation given on how the changes impact the Funding Strategy Statement.

The Chair, on behalf of the Committee thanked Mr Dodds for his presentation.

5.4 Updated Funding Strategy Statement

Ms Miriam Adams, Interim Head of Pensions and Treasury stated the detail regarding changes to the FSS statement had been explained by Mr Dodds and attached at item 5.4 was the revised FSS policy. She said the FSS took into consideration the new regulations that came into force in September 2020 and included the draft FSS policy appended at appendix A of the report. She said employers and stakeholders had been consulted in relation to the changes made to the policy and asked members to approve the revised statement.

In response to questions and comments from members the following was noted:

- No comments had been received from Employers

The Pension Committee **RESOLVED** to:

1. Note the content of the report; and
2. Approve the revised Funding Strategy statement as set out in Appendix A, which included the draft policy for 'Flexibility in Contribution Rates' and 'Deferred Debt Agreements.'

5.5 Funding Update

Mr Barry Dodds, from Hymans Robertson LLP presented the funding update. He said the funding update provided an illustration of the estimated funding position from 31st March 2019 to 31 December 2020 and the funding impact, risks and mitigation of risks associated with the ongoing COVID-19 pandemic.

At the last formal valuation, the Fund assets was £1,552m and the liabilities were £1,525m. This represented a surplus of £27m and equated to a funding level of 102%. At 31 December 2020, with assets at £1,948m and estimated liabilities £1,716m, the actuarial estimate is that the funding level is 114%. Mr Dodds referred to the charts on page 94 of the agenda and explained the outlook on the funding position and associated risks.

In response to questions and comments from members the following was noted:

- Mr Steve Turner from Mercer commented that the funding level of 114% was a great result especially in the LGPS sector. He recommended the Committee to consider reviewing its long-term investment strategy as a lower return might now be targeted.
- Members expressed their agreement to re-examine the investment strategy.
- In response to how many active members the fund had, Ms Miriam Adams confirmed this to be 7,378 and said this included staff members TUPEed over to Waste Services from Veolia. She said approximately 324 members had been TUPEed.
- Mr Dodds cautioned that any changes to the investment strategy ought to consider if the expected investment return would be adequate as the payroll and/or the number of people making contributions was far smaller than fifteen years ago. He said this was known as 'gearing' in the sector.

The Pensions Committee **RESOLVED** to:

1. Note the whole Fund actuarial update at 31 December 2020
2. Note that any investment decisions taken which fail to provide the desired returns will impact estimated funding levels

5.6 Fund Liquidity 2020/21 to 2022/23

Ms Miriam Adams, Interim Head of Pensions and Treasury presented the Pension Fund's projected cash flow forecast for 2020/21 to 2022/23. The Fund is projecting a £20.335m projected cash balance. This includes the £20m draw down from proceeds of equity protection which the Committee agreed in July for operational use and projected cash flow short falls identified in 2021/22 and 22/23. No further shortfall is forecast for the next 2 financial years.

Ms Adams referred committee members to the table at paragraph 3.3 and said this showed the membership trends over the last few years. She said 324 members were added when the Veolia contract came to an end, with pension numbers increasing slightly. She referred members to the Appendix A which showed the cash flow forecast for future years.

In response to questions from members the following was noted:

- In reference to the 'other admin expenses' shown in appendix A, Ms Adams clarified this related to changes that have been made in relation to the pension administration software contract. She said payments were now being made directly from the pensions bank account rather than a recharge to the Council. She said the figures shown also related to invoices received in relation to the work done on the 2019 valuation and work undertaken by Hymans in relation to the Annual Allowance and other areas.

The Pensions Committee **RESOLVED** to:

1. Note the cash flow forecast from operational activities (Appendix A)

6. EXCLUSION OF THE PRESS AND PUBLIC

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The Chair **MOVED** and it was

RESOLVED

"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."

6.1 Voting, Engagement and Stewardship Update

The minute for this item is restricted.

6.2 Task Force on Climate Related Financial Disclosures (TCFD)

The minute for this item is restricted.

6.3 Quarterly Performance & Libor Transition

The minute for this item is restricted.

6.4 Portfolio Update and Renewable Energy Suitability Advice

The minute for this item is restricted.

6.5 Investment Strategy Statement

The minute for this item is restricted.

6.6 Administration and LGPS Quarterly Update

The minute for this item is restricted.

7. TRAINING EVENTS

Ms Miriam Adams, Interim Head of Pensions and Treasury reiterated the training session to be held on the 22nd April in relation to the Responsible Investment Policy and the likelihood of a further training session on the Investment Strategy.

8. RESTRICTED MINUTE(S) OF THE PREVIOUS MEETING(S)

The restricted minutes from the 19th November and the 9th December 2020 meetings were approved to be an accurate record of the meetings.

9. ANY OTHER BUSINESS CONSIDERED TO BE URGENT

The Chair asked Committee Members to note the provisional dates of meeting for the Committee for municipal year 2021/22.

- Thursday, 24th June 2021
- Thursday 23rd September 2021
- Thursday, 25th November 2021 and
- Thursday, 24th March 2022.

There was no other urgent business discussed.

The meeting ended at 9.00 p.m.

Chair, Councillor Kyrsten Perry
Pensions Committee

