

LONDON BOROUGH OF TOWER HAMLETS

MINUTES OF THE PENSION BOARD

HELD AT 10.00 A.M. ON MONDAY, 13 JUNE 2022

**COMMITTEE ROOM ONE - TOWN HALL, MULBERRY PLACE, 5 CLOVE
CRESCENT, LONDON, E14 2BG**

Members Present in Person:

John Jones	(Independent Chair)
David Stephen Thompson (Vice-Chair)	(Representing Retired/Deferred Pension Fund Members)
Councillor Abdul Mannan	(Representing Pensions Fund Employers)
Michael Alderson	Substituting for Roger Jones (Representing Pension Fund Employers)

Members In Attendance Virtually:

John Gray	(Admitted Bodies Representative for Active Fund Members)
Nneka Oroge	(Active Fund Members' Representative)
Annette McKenna	(Representing Admitted Bodies Employers)

Apologies:

Roger Jones	(Head of Revenues)
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Others Present in Person:

Douglas Green	Hymans Robertson - Fund Actuary
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Officers Present in Person:

Miriam Adams	Interim Head of Pensions and Treasury
Carole S Bowes	(Employment Lawyer, Legal Services, Directorate Law, Probity and Governance)
Farhana Zia	(Democratic Services Officer, Committees, Governance)

Officers In Attendance Virtually:

Nisar Visram	(Director of Finance, Procurement & Audit)
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1. APOLOGIES

Apologies for absence were received from Roger Jones (Representing Pension Fund Employers), with Michael Alderson substituting for Mr Jones.

2. DECLARATIONS OF INTERESTS

There were no declarations of pecuniary interests made by members of the Board.

Change to the Order of Business

The Chair, Mr John Jones stated item 8.2 would be taken first, after items 3 and 4, followed by the rest of the items on the agenda.

3. APPOINTMENT OF VICE-CHAIR

The Chair Mr John Jones proposed Mr David Stephen Thompson continue in his role as vice-chair of the Pensions Board. The nomination was seconded by Councillor Abdul Mannan and Michael Alderson.

The Pensions Board **RESOLVED** to:

1. Elect Mr David Stephen Thompson as the vice-chair of the Pensions Board for 2022-23.

4. PENSION BOARD TERMS OF REFERENCE, MEMBERSHIP, QUORUM AND DATES OF MEETINGS 2022/23

The Chair, Mr John Jones explained the report set out the terms of reference for the Pensions Board, membership, quorum and dates of meeting for the municipal year 2022/23. He drew particular attention to the terms of reference appended at appendix 1 and said further details regarding the Pension Board could be found in Part D of the Council's constitution. He also asked Board members to make a note of the dates of meeting.

The Pensions Board **RESOLVED** to:

1. Note its Terms of Reference, quorum, membership and dates of future meetings as set out in Appendices 1, 2 and 3 to this report; and
2. Confirmed 10:00 a.m. as the preferred time at which the scheduled meetings will start.

5. UNRESTRICTED MINUTES

The unrestricted minutes from the 7th March 2022 meeting were **AGREED** and **APPROVED** as an accurate record of the meeting.

Matters arising

Pension Fund Accounts - Referring to page 20 of the agenda and the current position relating to the Pension Fund Accounts, the Chair asked Mr Nisar Visram, Director of Finance, Procurement and Audit to provide an update to members of the Board.

Mr Visram stated the 2018/19 and 2019/20 accounts had a few outstanding queries that required resolving before they could be finalised; with the 2020/21 and 2021/22 accounts being presented to the November meeting of the Audit Committee. Mr Visram stated the matter had not been reported to the Pensions Regulator, as the issues identified did not relate to the Pension Fund accounts but to the main accounts. He said the Fund accounts could not be signed off without the other.

Recruitment and Retention – Referring to page 23 of the agenda and the action point, Mr Thompson asked if an update could be provided on the recruitment and retention of staff. Ms Adams responded stating the Senior Pension Fund accountant role was out to advert and the job description for the Reconciliation Accountant was being worked on. Ms Adams said she would provide the Board Members with a written update.

The Chair, Mr John Jones thanked Mr Visram and Ms Adams for the updates.

6. SUBMISSIONS FROM FUND MEMBERS

There were no submissions made by fund members.

7. SUBMISSIONS / RESPONSES FROM PENSION COMMITTEE

There were no submissions/responses from the Pensions Committee.

8. REPORTS FOR CONSIDERATION

8.1 ESG, Voting, Engagement and Stewardship Update

Ms Miriam Adams, Interim Head of Pensions and Treasury stated that the report provided an overview of the stewardship activity carried out by Tower Hamlets Pensions Fund's investment managers and on its behalf by the Local Authority Pensions Forum (LAPFF) in the quarter ending March 2022.

Ms Adams drew particular attention to the paragraph 3.5 and the LAPFF's engagement with companies as well as paragraphs 3.6 to 3.9, which outlined the collaborative engagement which had taken place. Referring to voting alert variances and the table at paragraph 3.13, Ms Adams said this showed how LCIV and LGIM had voted. She said paragraph 3.14 provided an explanation as to why the voting alerts were issued.

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

- Ms Adams stated that there was no deadline as to when indirect investments in Russian companies would be withdrawn. She said the

LGPS's direct investments had been written down to zero however it was difficult to find and stop indirect exposure as it was hard to draw a line on this.

The Board **RESOLVED** to:

Note the recommendation being made to the Pensions Committee who are to consider this report at their meeting of 27th June 2022.

The Pensions Committee is recommended to:

1. Note content of this report and appendices.

8.2 Draft Pension Fund Triennial Valuation Assumptions

Mr Douglas Green, from Hymans Robertson introduced the report and explained the role of the Actuary. Mr Green referred to Appendix 1 and the presentation slides therein. He provided a detailed explanation regarding the valuation process and its timeline; why and how assumptions are set, the financial and longevity assumptions which are considered and how these are predicted; as well as the demographic assumptions that are taken into account.

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

- Mr Green stated that the assumptions made, were over for a 20-year period so it was difficult to back test over that period, however the last three years from the last triennial valuation were looked at, to see if the assumptions made were accurate.
- Referring to paragraph 3.8, and the table therein, Mr Thompson asked if there was any concern about increases in Pension benefits. He said the prediction was there would be a large increase in the autumn. Mr Green said that whilst there would be a spike in years one and two the overall expectation was that this would quickly settle back closer to the 2% long run assumption.
- Mr Green said slide 10 showed the assumptions that were needed to make the valuation. He said some elements were common to all funds however there were individual, fund specific details such as longevity and demographics that impacted the assumptions made. He said it was not easy to compare the LBTH fund with others.
- In respect to how the Hyman Robertson's views/assumptions compare with other actuary consultants, Mr Green said the modelling used was not dissimilar to the one used by others. However, the predicted investment return would differ depending on consultation with officers and Fund administrators. He said whilst the assumptions made were viewed as prudent, each fund made its own decision regarding investments. Mr Green said there were 87 LGPS funds and each

would be making their own assumptions. The Government Actuary did an analysis of the valuations and provides oversight as required.

- Ms Adams explained that the recommendations were put forward by the Actuary and decisions in relation to the triennial assumptions were made by the Pensions Committee and Board. Thereafter further consultation took place between Officers as well as the Employers Forum.
- In reference to slide 12, Mr Thompson asked if the 2040 climate change target had been considered, especially in terms of stock availability and returns. Mr Green responded stating they had spoken to officers and the investment consultants and had taken a long-term view in relation to asset allocation and had factored in plans for this change.
- In reference to slide 17, salary increases, Mr Green confirmed total salary was taken into consideration including promotional scales, which applied on top of CPI calculations. Mr Green said changes to the total payroll would be in the future post 2022 and this would be picked up in future triennial assumptions.
- Referring to Longevity assumptions, slide 21 Mr Green confirmed their sister company Club Vita provided analytics relating to where fund members lived. He said this was all taken into consideration when making the valuation. The impact of Covid-19, slide 24 had also been considered although it was too early to tell what impact this had on fund members.

The Chair thanked Mr Green from Hymans Robertson for attending the Board meeting and making his presentation.

The Board **RESOLVED** to:

Note the recommendation being made to the Pensions Committee who are to consider this report at their meeting of 27th June 2022.

The Pensions Committee is recommended to:

1. Note and approve the triennial valuation assumptions recommended by the scheme actuary Hymans Robertson.

8.3 Tower Hamlets Pension Fund Business Plan 2022/23 to 2024/25

Ms Miriam Adams, Interim Head of Pensions and Treasury introduced the report and stated the business plan provided the operational framework for the Pension Fund. Ms Adams said the Pensions Committee was being asked to approve the Business Plan to fulfil the strategic objectives for investment, funding, governance, administration, and delivery of the fund.

Ms Adams stated this was a high-level document and was a requirement of good governance III, however this had not been passed as legislation. She

said the Fund had taken the initiative to implement the recommendations and put forward the Business plan for 2022/23 to 2024/25.

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

- Referring to the table on page 107, the Chair Mr John Jones asked if the management expenses were directly comparable overall or if there had been a real growth in costs. Ms Adams said this was the real growth in costs. She said the Fund had a 6% strategic asset allocation for renewable energy – approximately £120m, of which £20m was committed in capital calls. She said some asset classes attracted expenses including management costs from 0.75% to 1.25%. She said the Fund was looking to appoint an affordable housing manager which would be the next step as part of the ESG strategy, as well as making it inflation proof.
- In response to if the management fees are challenged by the LCIV, Ms Adams said the LGPS was committed to using LCIV for investments and the LCIV should be the cheaper option. She said the Board could make a recommendation on that, but the LCIV should be getting the best price in the market because of the bulk and the AUM to bargain.
- Mr Thompson stated the report was helpful and said he was supportive of the affordable housing investment manager appointment and said this was to be welcomed.

The Board **RESOLVED** to:

Note the recommendation being made to the Pensions Committee who are to consider this report at their meeting of 27th June 2022.

The Pensions Committee is recommended to:

1. Note the report and approve the Tower Hamlets Pension Fund Business Plan 2022/23 to 2024/25 attached at Appendix 1

8.4 Quarterly Update Risk Register and Risk Policy

Ms Miriam Adams, Interim Head of Pensions and Treasury introduced the report and said the report updated members of the Board and Committee on the changes to the Fund's risk register and risk management policy.

Ms Adams referred to paragraph 3.3 onwards and provided an update in relation to the risks outlined in the report. She referred to paragraph 3.7 and said the Pensions Committee had approved the net zero pathway. Whilst it was impossible to completely mitigate against climate change impact, these positive steps towards the net zero target, are at the forefront within the LGPS and therefore considered to be an important risk to monitor.

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

- Referring to paragraph 3.3 and the issues with Iconnect, the Chair asked what progress had been made. Ms Adams responded stating discussions were ongoing. She said they were working with Payroll to resolve the issues.
- Mr Nisar Visram, Director of Finance, Procurement and Audit stated the working group had looked at dataflows and had an action plan whereby it had implemented changes to the payroll system. He said the issue referred to were historical and the mismatches would take time to fix. Mr Visram confirmed these were system issues with mismatching and glitches which required testing before updates to the system could be released.
- Mr Jones asked if there were enough resources available to target this area? Mr Visram stated most issues had been rectified and going forward there would be no issues with dataflows. They were trying to resolve the historical mismatches.
- Mr Thompson added that the Board had been concerned about the number of Employers still not using Iconnect and said this needed resolution with the employers and payroll coming together as a matter of urgency. He said both internal and external expertise was required to solve this.
- **ACTION:** The Board be provided with an update on the key issues affecting Iconnect and why Employers are not using the system. The Board stated this issue needed to be concluded as soon as possible.

The Pensions Board **RESOLVED** to:

Note the recommendation being made to the Pensions Committee who are to consider this report at their meeting of 27th June 2022.

The Committee is recommended to:

1. Note and comment on the detailed Risk Register (Appendix 1)

8.5 Pensions Administration and LGPS Quarterly Update – March 2022

Ms Miriam Adams, Interim Head of Pensions and Treasury said the report provided members with information relating to the administration and performance of the Fund over the last quarter as well as an update on the key LGPS issues which impact the Fund.

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

- Referring to paragraph 3.12, Mr Gray stated the Local Government Association had also been pushing the recruitment and retention issue within LGPS. He said it was not a unique problem as it effected all Funds.

- Referring to opt-outs, Mr Gray asked if any research had been done to see why employees opt out of the scheme. Ms Adams said having a pension is an employee benefit and the Employer needs to make the employee aware of the benefits. She said people opted-out for several reasons, including affordability and religious reasons. She said in some cases employers aren't telling their staff, about the scheme as it reduces the expense to employer. However, the Unions could help with promoting schemes to their members.
- Referring to paragraph 3.2., and the table therein, Mr Thompson said the Pension team should be acknowledged for its work in reducing the number of tasks outstanding. He said he was pleased to see the CIPFA targets being shown as these were important and helpful.
- Referring to the table at paragraph 3.7, Mr Thompson asked what was being done to develop the workflows for some of the areas shown in the table. Mr Adams responded stating 9 workflows were outstanding. She said these had been developed and were being tested before they could be released.
- Referring to paragraph 3.8, Mr Thompson said the final sentence referred to the fund not being 'authorised to provide any financial advice to our members', yet just above it was talking about the breach of the Annual Allowance. He asked how the fund made people aware of this. Ms Adams said they made fund members aware through the annual newsletter as well as through workshops. She said this affected high earners who were provided with a statement. However, the onus was on them to declare their tax to HMRC, as they may have other sources of income such as saving and properties etc. Hence the Fund could not give advice on their tax.

The Pensions Board **RESOVLED** to:

Note the recommendation being made to the Pensions Committee who are to consider this report at their meeting of 27th June 2022.

The Pensions Committee is recommended to:

1. Note and comment on the contents of this report and appendix

8.6 Update on pension fund accounts audit (verbal update)

The Chair stated Mr Nisar Visram, Director of Finance, Procurement and Audit had already provided an update on the Pension Fund Accounts Audit and therefore he would be moving to the next time on the agenda.

Mr Visram confirmed he had nothing further to add to the update he had already provided the Board.

9. PENSIONS COMMITTEE AGENDA FOR THE FORTHCOMING MEETING

Ms Miriam Adams, Interim Head of Pensions and Treasury said several reports which had been discussed by the Board would also be presented to the Pensions Committee. She said the agenda would be published for the Committee's meeting of 27th June in due course.

Board members had no questions in relation to this item.

10. ANY OTHER BUSINESS

No other business was discussed by the Board Members.

11. EXCLUSION OF PRESS AND PUBLIC

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."

11.1 RESTRICTED MINUTES OF THE PREVIOUS MEETING

The Board agreed the restricted minutes from the 7th March 2022 meeting to be an accurate record of the meeting.

11.2 Net Zero Target implications and Decarbonisation Plan

Ms Miriam Adams, Interim Head of Pensions and Treasury introduced the report and stated that this had been discussed and approved by the Pensions Committee at their meeting of 10th March 2022.

The Pensions Board **RESOLVED** to:

1. Note the recommendation being made to the Pensions Committee who considered this report at their meeting of 10th March 2022.

The meeting ended at 12.57 p.m.

Chair, John Jones
Pension Board