

## MINUTES OF A MEETING OF THE PENSIONS COMMITTEE

MONDAY, 23RD JULY, 2018

**Councillors Present:** Councillor Robert Chapman in the Chair  
Cllr Michael Desmond (Vice-Chair),  
Cllr Kam Adams, Cllr Polly Billington,  
Cllr Ben Hayhurst and Cllr Rebecca Rennison

**Co-optee** Jonathan Malins- Smith

**Officers in Attendance:** Ian Williams (Group Director of Finance and Corporate Resources), Michael Honeysett (Director of Financial Management), Rachel Cowburn (Head of Investment & Actuarial Services) and Sean Eratt (Legal Services)

Also present Andrew Johnston (Hymans Robertson)  
Karen McWilliam (Aon)  
Kevin Cullen (London CIV)  
Members of Hackney Divest

### 1 Apologies For Absence

1.1 There were no apologies for absence.

### 2 Declarations of Interest - Members to declare as appropriate

2.1 Councillors Chapman and Desmond declared a non-pecuniary interest as deferred members of the LGPS

2.2 Councillors Adams declared a non-pecuniary interest as his partner was employed within local government.

### 3 Consideration of The Minutes of The Previous Meetings

3.1 **RESOLVED** that the minutes of the meeting held 23 May 2018 and 21 March 2018 were agreed as a correct record subject to the following amendment:

- 21 March 2018 – paragraph 5.4 be amended and at paragraph 7.6 the word 'each' be deleted.

### 4 Training - Introduction to Hackney Fund Governance

4.1 Rachel Cowburn introduced the report on the training to be provided to Members. Karen McWilliam, Aon, provided training on Pension Legislation and Governance and covered the following areas:

#### The legislative framework

- Superannuation Act 1972
- Public Services Pensions Act 2013

#### LGPS specifics

- Local Government Pension Scheme Regulations 2013
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

#### Other legislation

- Income & corporation Taxes Act
- Pensions Acts
- Finance Acts
- Local Authority Acts
- Equalities Act
- Human Rights Act
- Data Protection Act
- Freedom of Information Act
- Employment Rights Act

### **Structure & Governance of the LGPS**

- Who manages LGPS Secretary of State for HCLG
- Administering Authority ( LGPS Regulations) / Scheme manager (Public Service Pension Act)
- Local governance structure
- The Hackney PF – decisions and delivery
- Pensions Committee responsibilities: Act as Trustees; Scheme Manager; Make appointments; Statement of Investment Principles; Strategic objectives; Investment strategy; and Actuarial Valuation; Monitor investment managers; Annual budget; Annual report; Terms of reference; Strategic focus at meetings; review policies/strategies; and overview of training.
- Fiduciary responsibilities: fiduciary duties; investment decisions; and wider influences
- The Hackney Pensions Board: Assisting the Administering Authority and oversight role
- Key stakeholders: Employers and Scheme Members.
- The national LGPS
- Scheme Advisory Board (national): Guidance; reporting; thought leadership; and oversight
- The Pension Regulator's extended role: Legislative powers and Code of practice – Educate and enable

### **RESOLVED to note the report and presentation.**

#### **5 Terms of Reference Changes**

5.1 Rachel Cowburn introduced the report setting out the need for a change to the Pensions Committee's Terms of Reference as set out in the Council's constitution. The proposed changes were summarised including the process of appointing a Co-optee representative on the Committee through an Appointment Panel recommendation. There were plans for consultation regarding the draft proposals including consultation with Committee members and consideration by the Monitoring Officer ahead of approval by Full Council.

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5.2 Members expressed that the appointment of the Employer Scheme Member representative should not be delayed until the proposed Co-optee appointment procedure had been approved by Full Council in October 2018. Members requested that the current appointment procedure be implemented to appoint a new Employer Scheme Member representative on this Committee. In addition, this representative should be consulted on the proposed changes to the terms of reference.

**RESOLVED to:**

- 1 Note the report.**
- 2. Approve the extension of the existing terms of appointment for co-opted representatives until the new appointment process detailed in the revised Terms of Reference is approved by Full Council**

**6 Business Plan 2018-2021**

6.1 Rachel Cowburn introduced the report on the Pension Fund Business Plan for the period covering 2018-21 including a draft plan of work for the Pensions Committee and a communications plan for the current financial year 2018-19. The plan included updating policies and the investment strategy. Ms Cowburn advised that the self-assessment on knowledge and skills had been deferred to December 2018 to enable new Members of the Committee to receive pensions training.

6.2 Cllr Desmond and the Chair enquired about having a mid-term review of the investment objective and regular review of the climate change policy to ensure its implementation. Ms Cowburn replied that a mid-term review would be undertaken in 2019 reviewing the Fund's climate change policy and investment strategy.

6.3 The Chair requested an update on the Fund's investment strategy be provided at a future meeting including the impact of any legislative and Committee changes. Ms Cowburn indicated that the update could be provided at a special Pensions meeting in January 2019.

6.4 Cllr Adams asked whether the current arrangement for pensions training at Committee meetings could be reviewed and for training sessions to take place outside of meetings. Ms Cowburn stated that it was a legal requirement to provide pensions training and that Members would have to be consulted on any proposed changes to the training dates. The Chair requested that officers consider reviewing the date and time of pensions training.

**Action: Rachel Cowburn**

**RESOLVED to approve the Business Plan for the Pension Fund for 2018-21**

**7 London CIV Update**

7.1 Rachel Cowburn introduced the report and welcomed Mr Cullen who provided an update on the London CIV as follows:

**London Collective Investment Vehicle (LCIV) Update**

- London CIV update
- Current percentage AUM pooled per Borough
- LCIV news
- LCIV Organisational chart

**Governance**

- Governance framework
- New governance structure of London CIV
- Fund Range
- Current Fund offering
- Performance for Q1 2018
- Fixed income range
  - LCIV MAC Fund
  - LCIV Global Bonds Fund
  - LCIV Global Liquid Loans Fund
  - LCIV Private Debt Fund
  - LCIV Long/Short MAC Fund
- LCIV Sustainable Equity Fund

#### **Responsible Investment**

- Responsible Investment commitment

7.2 Mr Cullen advised that a Fund Manager Day focusing on equity would be held mid August and members were welcome to attend.

7.3 Cllr Desmond enquired about the reason why many of its staff had left the organisation and whether the staff morale issue had been resolved. Mr Cullen stated that since he joined the team staff morale was good and the new Chief Executive had the investment experience to deal with the challenges of pooling. In response to a question regarding chief officer vacant posts, Mr Cullen stated that the positions were currently being advertised.

7.4 Ms Cowburn enquired about fund managers fees. Mr Cullen stated that the London CIV had been able to renegotiate managers fees through pooling and all members would benefit from the lower fees. Furthermore, as the London CIV's revenue grows the funding charge would come down.

7.5 Mr Malins – Smith referred to the new bespoke quarterly reporting and asked if this would be available to Committee members. Mr Cullen advised that quarterly investment reports, fact sheets, and quarterly reviews were available on the London CIV portal and any members interested should provide their details so that access could be set up.

7.6 In response to the Chair, Mr Johnston said that asset allocation was a factor in Fund performance. Cllr Adams enquired about the LCIV MAC Fund. Mr Cullen confirmed that investors could terminate their investment in the MAC Fund at any time but this may incur a termination fee.

7.7 Ms Cowburn enquired about having a greater influence on managers in exercising their vote at shareholders meetings. The Chair added that arrangements were needed to ensure that manager's voting was transparent and in line with Committee policy.

7.8 Mr Malins – Smith sought further clarification regarding the Responsible Investment policy. Mr Cullen stated that the feedback on the proposed policy had been positive and he did not envisage any issues with the policy being ratified at the Shareholder meeting.

7.8 Cllr Desmond asked if there any contingency plans in place in the event of UK leaving the European Union without an agreement. Mr Cullen confirmed that there were currently no contingency plans in place and that it would be a challenge to mitigate for this event

**RESOLVED to note the contents of the report and presentation.**

## **8 Equity Restructure - Post-Completion Report**

8.1 Rachel Cowburn introduced the report providing an update following the completion of the Pension Fund's equity portfolio transition exercise. Ms Cowburn referred to the transition summary, which involved the restructure of a UK equity pooled fund and two global equity segregated portfolios to fund investments into four new pools called UK equity, currency hedged global equity, global equity with a low carbon screen and active global sustainable equity.

8.2 Members asked whether Global equity was more advantageous than UK equity and when the Committee would be considering the investment options for the asset allocation of up to 5% for local or other housing/infrastructure projects. Ms Cowburn indicated that as long term investors long term investments and returns needed to be considered for the Fund. Ms Cowburn advised that alternative asset allocations and opportunities for investment would be considered at future meetings.

8.3 Mr Malins- Smith enquired whether there were any legal restrictions preventing the Fund from investing locally. Ms Cowburn advised that there were no legal implications if the Fund invested locally but that Members should be mindful of the risks of investing within the borough.

8.4 A representative of Hackney Divest addressed the meeting and welcomed the Fund's progress made in divesting from fossil fuel. However, with Ireland announcing that it would fully disinvest from fossil fuel it was requested that the Committee consider committing further to full divestment and speedily implementing the divestment strategy for fossil fuel. The Chair indicated that he and the Corporate Director of Finance and Corporate Resources would be willing to discuss this issue with members of Hackney Divest.

8.5 Members discussed the exempt appendix of the submitted report during the private part of this meeting.

**RESOLVED to note the contents of the report.**

## **9 Quarterly Report Update**

9.1 Rachel Cowburn introduced the report providing an update on the key quarterly performance measures, including an update on the funding position, investment performance, engagement and corporate governance, budget monitoring, administration performance and the reporting of breaches. The Chair advised Members to email any questions regarding the strategy and risk management dashboard directly to Ms Cowburn.

9.2 Cllr Hayhurst enquired about the funding level. The Chair indicated that the Fund's investment strategy encouraged investment in growth assets to minimise any funding gap. Ms Cowburn stated that the employer pension contributions for the Fund

had been set during the scheme's actuarial valuation and Hackney had contributed approximately £57m in the previous year.

9.3 Cllr Adams referred to paragraph 4.3 and sought clarification regarding cashflow issues. Ms Cowburn said that a cashflow exercise was undertaken every three years and that the Fund was not expected to become cashflow negative in the near future however, officers would be monitoring this and plans would be in place should this occur in the future.

9.4 In response to a question, Ms Cowburn commented that as the London CIV developed the Responsible Investment policy was in line with the Fund's strategy.

**RESOLVED to note the contents of the report.**

### **10 Voluntary Scheme Pays Policy**

10.1 Rachel Cowburn introduced the report on the Voluntary Scheme Pays Policy. Ms McWilliam highlighted the main points of the report regarding the first 'Voluntary Scheme Pays Policy 2018', which had been drafted as a discretionary option for members of the Local Government Pension Scheme who breached HMRC's annual allowance limit on pension savings growth in a financial year. The policy permitted members to use the 'Voluntary Scheme Pays' and detailed the circumstances for accepting such applications.

10.2 Mr Malins- Smith sought clarification regarding the low volume of members exercising their right to request Annual Allowance Charge to be paid via Voluntary Scheme Pay and asked if this policy could be reviewed annually. Ms McWilliam replied that a small number of members were expected to exercise this right but this number could increase in the future. Many LGPS administering authorities that were introducing this policy were also proposing to review it every three years. It was noted that approving the policy at the earliest would be in the best interest of members.

10.3 Cllr Rennison referred to the administration costs and Ms McWilliam clarified that the administrative costs were small and should be computer processed.

**RESOLVED to approve the Voluntary Scheme Pays Policy 2018.**

### **11 Reporting Breaches Procedure**

11.1 Rachel Cowburn introduced the report setting out the 'Reporting Breaches Procedure' for the Fund, which ensured compliance with section 70 of the Pensions Act 2004 and the 'reporting breaches' section of TPR's Code of Practice. The report provided a summary of the recommendations set out in the Code and detailed the actions taken by the Pension Fund to ensure that all those involved in the management of the pension scheme understand its requirements.

11.2 Ms Cowburn stated that the Council had reported its failure to produce the end of year scheme members' statements by the deadline and that Pensions was a body that was required to report any breaches.

**RESOLVED to approve the updated Reporting Breaches Policy**

### **12 Administration - Annual Report 2017/18**

12.1 Rachel Cowburn introduced the report outlining the work undertaken by the London Borough of Hackney and the performance of the pension fund administrators, in regard to the administration of the LGPS Hackney Pension Scheme for the financial year 2017/18. The contract for pension administration and pension payroll was managed externally by the Fund's pension administrators Equiniti.

12.2 Jonathan Malins- Smith referred to paragraph 4.2, and enquired about the cost of administering the Fund. Ms Cowburn stated that the administering costs had increased in 2017/18 compared to the previous year due to the significant increases in the Fund's administration costs and the additional costs incurred from carrying out a reconciliation exercise. Hackney had negotiated a settlement with the previous administrator and this negotiated cost had been included in the financial year 2017/18. It was emphasised that the new contract would lower the administration costs for year 2018/19 and provide an enhanced level of service.

**RESOLVED to note the contents of the report.**

### **13 Administering Authority Discretions Policies**

13.1 Rachel Cowburn introduced the report that proposed amendments to the existing Administering Authority discretions policies following regulatory changes in 2013. The update to the statement represented a routine review, ensuring that the list of discretions were complete and existing policies are still appropriate. Changes had been made to accommodate changes to the governance structure of the Fund since the last review and changes to the management update.

13.2 Ms McWilliam highlighted the two stage internal dispute process that enabled the Head of Pensions Administration to act as the stage one IDRP assessor for disputes and stage two determinations to be dealt with by the Group Director of Finance and Corporate Resources before complaining to the Pensions Ombudsman.

**RESOLVED to approve the amended Administering Authority discretions policies**

### **14 Any Other Business Which in The Opinion Of The Chair Is Urgent**

14.1 There was no other urgent items of business.

### **15 Exclusion of The Press And Public**

#### **RESOLVED**

That the press and public be excluded from the proceedings of the meeting during consideration of the Items 8 – Exempt Appendix 1 and 16 on the agenda on the grounds that it is likely, in the view of the nature of the business to be transacted, that were members of the public to be present, there would be disclosure of exempt information as defined in Schedule 12A to the Local Government Act 1972 as amended.

### **16 Consideration of the Exempt Minutes of the Previous Meeting**

16.1 RESOLVED that the exempt minutes of the meeting held on 21 March 2018 were agreed as a correct record.

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**Duration of the meeting: 6.30 - 9.30 pm**

Rabiya Khatun  
Governance Services  
020 8356 6279