

## MINUTES OF A MEETING OF THE PENSIONS COMMITTEE

TUESDAY, 10TH SEPTEMBER, 2019

- Councillors Present:** Councillor Robert Chapman in the Chair  
Cllr Michael Desmond (Vice-Chair),  
Cllr Kam Adams and Cllr Polly Billington
- Co- Optees:** Jonathan Malins-Smith (Scheme Member Representative)  
Henry Colthurst (Employer Scheme Member Representative)
- Apologies:** Councillor Ben Hayhurst and Councillor Rebecca Rennison
- Officers in Attendance:** Ian Williams (Group Director of Finance and Corporate Resources), Rachel Cowburn (Head of Investment & Actuarial Services), Julie Stacey (Head of Pensions Administration) and Sean Eratt (Legal Services).
- Also in Attendance:** Andrew Johnston (Hymans Roberston)  
Laura McInroy (Hymans Roberston)

At the start of the meeting the Chair welcomed Henry Colthurst following his appointment as a Co-optee Employer Scheme Member Representative of the Pensions Committee.

**RESOLVED that the appointment of Henry Colthurst as an Employer Scheme Member Representative of the Pensions Committee be approved.**

### **1 Apologies For Absence**

1.1 Apologies for absence were received from Councillors Rennison and Hayhurst.

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

2.1 Councillor Desmond declared a non-pecuniary interest as a deferred member of the LGPS until further clarification regarding his pension status.

### **3 Consideration of The Minutes of The Previous Meeting**

**RESOLVED** that the minutes of the previous meeting held on 25 June 2019 be approved as a correct record subject to the inclusion of Mr Malins-Smith within the attendance list.

## 4 Training - Actuarial Valuation

4.1 Rachel Cowburn introduced the report in relation to a training session on the Pension Fund's actuarial valuation.

4.2 Laura McInroy, **Hymans Robertson**, provided training on actuarial perspectives and covered the following areas:

### **What is an actuary and the role of the Fund Actuary**

#### **Introduction to the actuarial valuation**

- How the Fund works
- Putting a funding plan in place
- How do you fund a scheme
- Why we do a valuation
- Who is interested in a valuation
- Valuation begins at member level
- Valuing all members
- Valuation 'health check'
- Approach to setting contributions
- The funding strategy is a balancing act
- Understanding funding risk

#### **Setting your funding strategy**

- Who participates in the Hackney fund
- Each employer tends to its own patch
- Funding strategy- three step approach
- Setting employer contribution rates
- Factors that affect the pace of funding
- Different approaches for different employers
- The end result

#### **National hot topics**

- McCloud and cost cap
- Valuation cycle
- Other LGPS related consultations
- Outlook for 2019 valuation

4.3 Councillor Billington enquired whether internal or external regulators scrutinised the Fund's performance to ensure contribution rates remained affordable. Ms McInroy replied that The Pensions Regulator (TPR) had recently been focusing more on regulating pension funds and legislation governing pensions also allowed the government to intervene and compare pension funds taking into consideration a fund's valuation and its long-term plans. Ms Cowburn stated that the Fund's previous valuation report had been issued with some caveats including data issues. This issue had been addressed this year with significant progress made in the data quality submitted.

4.4 The Chair asked when the Pension Fund was expected to clear its liabilities and be fully funded. Ms McInroy stated that it would take approximately 85 years based on the data valuation.

4.5 Mr Malins- Smith enquired why there were 5,000 scenarios. Ms McInroy indicated that this was the minimum number of scenarios required to obtain credible

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assumptions and outcomes in order to achieve funding success. Members sought clarification regarding the range and basis of the assumptions and Ms McInroy explained that there was a table summarising the different ranges of the 5,000 assumptions. Mr Johnston added that the assumptions were based on economic quantitative analysis and the 5,000 scenarios were individual scenarios. This model also factored in contributions plans, projection of all assets and inflation.

4.6 Councillor Billington asked whether any major financial shocks had been factored into the model and Ms McInroy stated that all factors had been included. Mr Johnston added that no specific high risk event had been included in investment strategy however an analysis would be provided for specific risks such as Brexit.

4.7 In response to a question from Mr Malins- Smith, Ms McInroy confirmed that Hymans Robertson was the sole actuary for the LBH Pension Fund.

4.8 Mr Colthurst enquired about the number of active members under 55 years old that would be impacted by the court ruling that the changes that had been made to the scheme in early 2010 amounted to age discrimination. Ms Cowburn indicated that approximately 6,500 active members were affected.

4.9 The Chair asked if the Fund continued to be in liability, how this would be addressed. Ms Cowburn emphasised that if the Fund went into deficit it would be ordered to undertake an interim valuation.

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

## **5 Quarterly Update**

5.1 Ms Cowburn referred to the error in the figures for the last 3 year for Columbia Threadneedle at page 25 of the report and stated that these figures would be amended.

5.2 Rachel Cowburn introduced the report providing an update on key quarterly performance measures, including an update on the funding position, fund governance, investment performance, responsible investment, budget monitoring, administration performance and reporting of breaches. Ms Cowburn stated that at the end of June 2019 the funding level was 77.6% compared to 77% as at the end of March 2016

5.2 The Chair noted that the Sustainable Fund had performed well. Ms Cowburn stated that the returns this quarter had been generally good.

5.3 Mr Colthurst asked if there was any correlation with the funding level of 77% at page 10 and funding risk at page 46 of the report and expressed concern that the funding level had fallen below 80%. Ms Cowburn clarified that the funding risk at page 46 was rated based on the current risk status and target risk status. In terms of current risk, this had been rated as a red risk and at present the funding level was 77%, which had been regarded as a major risk and likely. To mitigate this high risk the Fund had been targeting the risk looking at ways to reduce the impact to a moderate risk whilst still accepting it was likely to happen. Ms Cowburn acknowledged that the Fund had a significant funding deficit but this had to be balanced against a scheme that was open to new members.

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5.4 Councillor Desmond sought further clarification regarding Churchill's valuation of 8.4% at page 23 of the report. Mr Johnston replied that 8.4% represented asset valuation at end of Q1 and this increased in Q2 to 15.1%, which had resulted from reporting increased cash contribution. Mr Johnston stated that this fund's performance could be assessed as delivering on target if the returns achieved were around 4% to 5% after a 12 month period.

5.5 The Chair enquired about the progress of the payroll issue. Ms Cowburn stated that significant progress had been made on the payroll interface and the Council's year end reporting, which had resulted in improvements in the 2018/19 data. This level of improvement needed to be sustained and further work was required in developing reporting including contribution values and integrated data provision. This year the Fund had issued 5,700 of the 6,300 active members' annual benefit statements and this progress had been reported to the TPR.

5.6 Councillor Adams asked about the appeals process. Ms Cowburn advised that the Council had a two stage complaints process and that if a member was dissatisfied with the resolution they could complain to the Pensions Ombudsman.

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

## **6 Pension Fund Annual Report and Accounts 2018/19**

6.1 Rachel Cowburn introduced the post audit Annual Report and Accounts of the London Borough of Hackney Pension Fund for the year ended 31<sup>st</sup> March 2019. Ms Cowburn stated that following CIPFA's new guidance for funds on the production of annual reports, a draft version of the Annual Report and Accounts 2018/19 was being presented at the meeting. The audit of the Pension Fund accounts had been completed and a draft certificate provided. The Fund's auditor would formally issue a certificate after it had completed the review of the annual accounts once it had received the additional asset pooling information to be provided by London CIV later this month. The final version of the annual accounts would be circulated to Members prior to publication.

6.2 Ms Cowburn added that the Funds auditors had issued an unqualified opinion without modification and would be concluding that the Pension Fund financial statements within the Pension Fund's Annual Report were consistent with the Pension Fund financial statement within the Council's Statement of Accounts.

6.3 The Chair asked officers to review the document as there were some minor errors in the annual report.

6.4 Mr Malins-Smith referred to Churchill Asset Management at page 64 of the report and indicated that 'private equity' be amended to 'private debt' and that there was no reference of Primercia within the report. Ms Cowburn replied that Primercia had been disclosed at the end of the Statement of Account and noted in the Fund's contracted commitment.

6.5 Mr Malins-Smith referred to the related party transactions at page 147 of the report and the costs incurred by the Council in relation to the administration of the Pension Fund. He requested a breakdown of the cost of officer time to the Fund and the methodology used to apportion this cost. Ms Cowburn stated the costs had been agreed between the Pension Fund and General Fund and that any officer's time would

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be charged to the Pension Fund and the Council. Ms Cowburn added that there was no breakdown of the cost included in the accounts as this had not been required by the auditors. The Pensions Team also retained working papers in relation to this issue. The Chair requested that an update addressing these points be provided and circulated to Members.

6.6 The Chair requested that the Fund's significant increase in funding levels in 2019 be incorporated within to the report.

**RESOLVED to:**

- 1. Note this version of the Pension Fund Annual Report and Accounts.**
- 2. Approve publication and distribution to interested parties, pending a final update on asset pooling to be provided by the London CIV and subject to a final version being circulated to Members.**

**7 GMP Reconciliation Update**

7.1 Julie Stacey introduced the report providing an update on the Fund's GMP (Guaranteed Minimum Pensions) reconciliation exercise, which was being undertaken to ensure that scheme member records for periods spent contracted out of the second state pension were properly accounted for. The report provided an update on the progress of Phase 2 of the reconciliation exercise and outlined factors for considering and agreeing to begin the next phase of Phase 3c – Pilot phase.

7.2 In response to a question from the Chair, Ms Stacey stated that comparison of enhanced complex data of individual records would be undertaken during the pilot phase to reduce the number of cases needing manual rectification and the work would be completed by spring 2019.

**RESOLVED to approve additional budget of £15k to allow Phase 3c – Pilot Phase to commence.**

**8 Annual Report of the Pensions Committee 2019-2019**

8.1 Rachel Cowburn introduced the report detailing the role of the Pensions Committee and summarised the key activities and achievements in 2018/19 that demonstrated how the Committee had fulfilled its role as the Scheme Manager for the London Borough of Hackney Pension Fund. The annual report would be presented to Full Council as a summary of the Committee's activities.

**RESOLVED to note the report.**

**9 TPR Code Compliance**

9.1 Rachel Cowburn introduced the report covering an updated Compliance Checklist for the London Borough of Hackney Pension Fund. From 1<sup>st</sup> April 2015 The Pensions Regulator (TPR) had assumed responsibility for public service pension schemes and the Code of Practice for Public Service Pension Schemes had come into force from 1<sup>st</sup> April requiring all pension schemes to consider its compliance with the Code.

9.2 Ms Cowburn stated that the Fund was generally able to demonstrate good levels of compliance with the code but there were some areas of partial compliance.

9.3 In response to a question from the Chair regarding the TPR's focus on LGPS, Ms Cowburn stated that the regulator's oversight of LGPS had increased with individual Pension Funds being scrutinised. Hackney Pension Fund had entered into a formal engagement with the regulator on the issue of the provision of employer data and annual benefit statements and would be providing monthly updates and documentation in terms of engagement with employers in relation to contributions and late submission of data.

9.4 Councillor Billington enquired about the progress made in relation to the annual benefit statements and the number of areas that were partially compliant. Ms Cowburn advised that progress had been achieved in the issuance of statements however further work was needed. Ms Cowburn stated that some areas of partial compliance concerned issues that were ongoing while other issues were shorter term, and as the code was prescriptive the Fund could be in non-compliance for minor issues.

9.5 Mr Colthurst indicated that target dates for action were required for the areas that were identified as partially compliant. Ms Cowburn undertook to include target dates in future reports.

9.6 Councillor Desmond referred to F3-Does the fund keep records of and reconcile transactions on page 333 of the report and sought clarification regarding 'write off'. Ms Cowburn stated that the write-offs were relatively small overpayments of a few hundred pounds that could not be recovered such as death payments.

**RESOLVED to note the Code of Compliance Checklist and where further work was required and being undertaken.**

## **10 Pensions Committee Agendas - Forward Look**

10. Members considered the forward look for Pensions Committee agendas.

**RESOLVED that the forward look for Pensions Committee agendas be noted.**

## **11 Brexit Update (Supplementary Paper )**

11.1 Andrew Johnston outlined the report setting out the potential implications of the different outcomes to the UK's Brexit negotiations, in particular, some of the implications for the financial markets of a 'no-deal' Brexit and outlook for UK companies. It also considered the potential impact both on global financial markets and on the Pension Fund's assets and liabilities and its funding position.

11.2 Mr Johnston stated that the key risks to the funding level would be falls in nominal gilt yields, a rise in inflation expectations and falls in property values resulting in potential falls in liquidity.

11.3 Mr Johnston highlighted some of the implications of a no deal on gilts, sterling credit spreads, equities and unhedged currency exposure. Mr Johnston outlined the Brexit scenario analysis for a soft Brexit, no deal and ongoing uncertainty, and indicated that the Members would be reviewing hedging in the future as part of the Fund's investment strategy review.

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**RESOLVED to note the report including the Hymans Robertson's advice that no fundamental changes be made to the Fund's investment strategy at this stage.**

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

12.1 Mr Williams advised that a recruitment process was currently underway for a scheme member representative and that an appointment should be made by December 2019. A further update would be provided in the future relating to the term of appointment of Co-optee members of the Pensions Committee. The Chair requested that consideration be given to appointing a Trade Union representative to this Committee.

12.2 Ms Cowburn stated that a special meeting of the Pensions Committee would be arranged in November 2019 to consider a report from Trucost.

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

RESOLVED THAT the press and public be excluded from the proceedings of the Pensions Committee meeting during consideration of exempt appendices at item 7 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.

**Duration of the meeting:** 6.30 - 8.55 pm

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