

## Minutes

### PENSIONS COMMITTEE

28 July 2020

Meeting held at VIRTUAL - Live on the Council's  
YouTube channel: Hillingdon London



	<p><b>Committee Members Present:</b> Councillors Martin Goddard (Chairman) Philip Corthorne (Vice-Chairman) Tony Eginton Raymond Graham John Morse (Labour Lead)</p> <p><b>LBH Officers Present:</b> Tunde Adekoya, Pensions Fund Accountant James Lake, Chief Accountant Liz Penny, Democratic Services Officer Yvonne Thompson-Hoyte, Interim Pensions Manager Paul Whaymand, Corporate Director of Finance</p> <p><b>Also Present:</b> Roger Hackett, Pensions Board Member Hayley Seabrook, Pensions Board Member Andrew Singh - representing Isio Clare Scott – Independent Adviser Larisa Midoni - representing EY Suresh Patel - representing EY</p>
45.	<p><b>APOLOGIES FOR ABSENCE</b> (<i>Agenda Item 1</i>)</p> <p>There were no apologies for absence.</p>
46.	<p><b>DECLARATIONS OF INTEREST IN MATTERS COMING BEFORE THIS MEETING</b> (<i>Agenda Item 2</i>)</p> <p>Councillor Philip Corthorne declared a Non-Pecuniary interest in all agenda items because he was a deferred member of the Local Government Pension Scheme. He remained in the room during discussion of the items.</p> <p>Councillor Tony Eginton declared a Non-Pecuniary interest in all agenda items as he was a retired member of the Local Government Pension Scheme. He remained in the room during discussion of the items.</p>
47.	<p><b>MINUTES OF THE MEETING DATED 29 JANUARY 2020</b> (<i>Agenda Item 3</i>)</p> <p><b>RESOLVED:</b> That the minutes of the meetings dated 29 January 2020 and 14 May 2020 be approved as an accurate record.</p>

48.	<p><b>TO CONFIRM THAT ITEMS MARKED PART I WILL BE CONSIDERED IN PUBLIC AND THOSE MARKED PART II WILL BE CONSIDERED IN PRIVATE</b> (<i>Agenda Item 4</i>)</p> <p>It was confirmed that items 1 to 13 were in Part I and would be considered in public and that items 14 – 16 were in Part II and would be considered in private.</p>
49.	<p><b>AUDIT OF ACCOUNTS</b> (<i>Agenda Item 5</i>)</p> <p>Reference was made to the Draft Initial Audit results report circulated to Councillors prior to the meeting. It was agreed that any questions or comments in relation to this report would be forwarded outside of the meeting to James Lake, Chief Accountant or to Tunde Adekoya, Pensions Fund Accountant.</p> <p>Suresh Patel of External Auditor Ernst and Young provided the Committee with an update on the audit of the 2019/20 Pensions Fund Accounts. It was confirmed that the audit was still in progress. The audit plan for the 2019/20 accounts had been issued in February 2020; since then EY had had to take into account the impact of the Covid-19 pandemic on the Council’s financial reporting. Members were informed that EY were impressed with how the Finance Team had continued to function in difficult circumstances and thanked them for their assistance to date. It was confirmed that the main impact of Covid-19 in terms of financial reporting had been around property valuations, asset values, investment returns and disclosures around the impact of Covid-19 including ‘going concern.’ The Committee was informed that ‘emphasis of matter’ would be included in the final EY report to aid understanding of the accounts. The deadline for publication of LBH Pensions Fund audited accounts was 30 November 2020.</p> <p>Larisa Midoni of Ernst and Young highlighted to the Committee some of the key points in the initial audit report. There had been some changes to the risk assessment as a result of Covid-19:</p> <ul style="list-style-type: none"> <li>• Valuation of Investments - the virus had affected pooled property funds and underlying property investments were now subject to the Royal Institute of Chartered Surveyors ‘material uncertainty’ paragraphs in their valuation reports;</li> <li>• Disclosures of Going Concern – additional inherent risks had been identified;</li> <li>• Changes to the scope of the audit as a result of Covid-19 – EY had undertaken additional enquiries to understand the impact of Covid-19;</li> <li>• Changes in materiality – it was considered that the basis and range were still appropriate;</li> <li>• Additional audit procedures as a result of Covid-19 – increased scrutiny of information produced by the Entity (IPE);</li> <li>• Additional EY consultation requirements concerning the impact on auditor reports – additional consultation processes were still being undertaken.</li> </ul> <p>It was noted that a more detailed status of the audit could be found on page 6 of the EY draft initial audit report. Members were advised that EY aimed to finalise the audit in time for the Audit Committee meeting on 1 October 2020.</p> <p>In terms of fees, it was confirmed that EY were in discussion with the Section 151 officer about proposals to increase their scale fee. There would also be additional fees in relation to the triennial valuation and internal consultation.</p> <p>Members sought further clarification regarding the statement on page 19 of the agenda</p>

pack 'balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.' It was confirmed that this was standard wording.

Members agreed the recommendation as set out in the officer's report.

**RESOLVED: That Pensions Committee noted EY's findings on the audit of the Pensions Fund accounts for 2019/20.**

50. **RATIFICATION OF DELEGATED DECISIONS** (*Agenda Item 6*)

James Lake, Chief Accountant, introduced this agenda item. It was noted that the Pensions Committee meeting in March had been cancelled due to the Covid-19 pandemic. Democratic Services had confirmed that the Corporate Director of Finance had delegated authority to take decisions on behalf of the Committee in urgent cases, in consultation with Committee Members, the Leader and Deputy Leader of the Council if necessary. Between March and July 2020, three decisions had been made – the suspension of the abatement policy for 12 months, approval of the Triennial Valuation and Funding Strategy Statement and the Award of Contract for Actuarial Services. It was confirmed that these decisions now needed to be ratified by the Pensions Committee.

Members raised no objections and approved the officer's recommendation as set out in the report.

**RESOLVED: That the Pensions Committee ratify the delegated decision taken by the Corporate Director of Finance after the required consultation as set out below:**

- 1) **The suspension of the abatement policy for 12 months**
- 2) **Approval of the Triennial Valuation and Funding Strategy Statement**
- 3) **Award of Contract for Actuarial Services.**

51. **INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE - PART I**  
(*Agenda Item 7*)

James Lake, Chief Accountant, introduced the report which presented the performance of the Fund and its managers for the quarter ending 31 March 2020. The Committee was advised that the total value of the fund at 31 March 2020 was £989m; this was a decrease of £137m from £1,126m at the end of the previous quarter. The reduction was due to the impact of Covid-19. The Fund had since recovered a little and its value as at 28 July 2020 was £1,068m. Fund Performance over the quarter ending March was -2.67% against benchmark. Performance figures for the quarter to end June had now been received and were +8.06% - this was still behind benchmark. The Fund had underperformed over the last year and Members were informed that the biggest contributors to this underperformance were UBS Equities, Epoch Investments and AEW, the property manager. It was confirmed that many of the property funds had been marking down their asset valuations.

In terms of the investment portfolio, Members were advised that £50m allocation to long lease property had been drawn-down. Index-linked gilts had now been matched to the duration of scheme liabilities, which had reduced some of the risk if the RPI index were to be removed.

In response to questions from Members, it was confirmed that some of the money from

Ruffer had been drawn down to fund long lease property. However, a considerable amount of money was still sitting with Ruffer at present.

Members commented that, whilst LBH could be reasonably confident in respect of its 'liquid assets', it was difficult for Fund managers to accurately value 'real assets' (real estate, and infrastructure assets) at this stage.

Members had no further queries and were in agreement with the recommendation as set out in the officer's report.

**RESOLVED: That Pensions Committee noted the Fund performance update.**

52. **INVESTMENT STRATEGY STATEMENT & COVID-19 REVIEW** (*Agenda Item 8*)

James Lake, Chief Accountant, presented the report. Councillors were informed that the revised investment strategy had been agreed by the Pensions Committee in January 2020. Subsequently, the formal valuation results and funding strategy statement had been agreed via delegated authority in April 2020. The investment strategy document had now been updated to reflect the strategy agreed in January and to support the valuation and funding strategy. It was confirmed that the updated investment strategy statement reflected the revised asset allocation. In addition, a review of the strategy had been commissioned due to Covid-19 to ascertain if it was still fit for purpose; Isio had subsequently confirmed that no change was required as it provided the necessary downside protection whilst still positioned to deliver the return required by the Fund.

The Committee was informed that the following paragraph:

"Where the Fund invests on a segregated basis, it requests the exclusion of investment within the Tobacco sector as part of the mandate. The Fund will not pursue policies that are contrary to UK foreign policy or UK defence policy."

was changed to the below, following the Supreme Court ruling on the Palestine Solidarity Champagne case:

"The Fund will give consideration to UK foreign policy or UK defence policy when making investment decisions."

In response to Members' requests for clarification, it was confirmed that illiquid funds were invested in over the longer term. If these were exited before maturity, a financial penalty would be incurred. Illiquid assets were a normal element within a Fund and were acceptable provided there was adequate liquidity within the Fund in terms of cash flow.

The Committee sought further clarification regarding the impact of Covid-19 and the potential for a need to recalibrate the asset allocation in the future. Andrew Singh of Isio commented that property portfolios (notably high street retail and office space sectors) had been particularly affected by Covid-19 and this was being monitored. It was difficult to precisely pinpoint the effect of Covid-19 on those two sectors and on the wider property market at present. It was agreed that, given the current uncertainty, property and infrastructure assets would be kept under constant review.

The officer's recommendations were moved, seconded and, when put to a vote, unanimously agreed.

**RESOLVED That the Pensions Committee:**

- 1) Approved, subject to the agreed amendments, the draft Investment Strategy Statement, along with the Covid-19 review;**
- 2) Approved amendment to references to UK foreign and defence policies in all Fund documentation including the Responsible Investment policy.**

**53. ADMINISTRATION REPORT (Agenda Item 9)**

Yvonne Thompson-Hoyte, Interim Pensions Manager, introduced the report which considered both how Surrey County Council had performed against key performance indicators and the matter of Member Self Service Registration. Members were informed that Members Self Service Registration uptake had increased slightly but there was still a long way to go. In terms of performance, due to Covid-19, the Pensions regulator had requested that payments of benefits be prioritised over non-critical items such as transfers. There had been an ongoing decline in KPIs in this area largely due to staff shortages at Surrey and staff working remotely. The Committee was informed that the recently appointed Head of Pensions at Surrey had resigned which was a matter of concern and this had been added to the risk register.

In terms of projects, Members heard that the deferred Members address-tracing project had been successful and had yielded a 92% positive result.

Members also heard that there was an ongoing list of overpaid pensions that the Fund had experienced difficulty in recovering. The Committee was advised that these occurred as a result of a time lapse between Surrey being notified of a death and payments actually stopping. It had been difficult to recover these overpayments in many instances and the amounts were often negligible hence it was not considered beneficial to the Fund to pursue recovery of them. In the past, amounts up to £100 had been written off if the money could not be recovered. Officers were asking that this amount be increased to £200. The Corporate Director of Finance would need to agree to any proposed write offs.

In response to Members' requests for clarification, it was confirmed that work was ongoing in other areas of the data improvement project. It was confirmed that ITM reported on initial analysis that they had carried out on backlog cases pertaining to members that have left the fund but have not indicated what should happen with their benefit entitlement (undecided leavers) and also on members who have left the fund with less than two years service so were entitled to a refund but could not be traced (frozen refunds). ITM had recommended duplicate records be merged in the first instance and then an address tracing exercise be done to find members as this was successful in the deferred tracing exercise. Members were also advised that address tracing would be an ongoing process.

The Committee noted that there were considerable concerns regarding Surrey's administration of the Fund, which would be addressed more fully in Part II of the meeting.

The officer's recommendations were moved, seconded and, when put to a vote, unanimously agreed.

**RESOLVED:**

- 1) That the Pensions Committee noted the report;**

2) That the Committee agreed the proposal to increase the threshold for writing off overpayment of pensions.

54. **PENSION FUND CONFLICT OF INTEREST POLICY** (*Agenda Item 10*)

Yvonne Thompson-Hoyte, Interim Pensions Manager, introduced the report, which sought approval for the draft Conflicts of Interest Policy for the Pensions Board. The Committee was informed that Pensions Board Members had had sight of the policy at their meeting in February 2020. Members' attention was drawn to a superfluous sentence prior to point 4.4 of the report (page 139 of the agenda pack) – it was proposed that this be removed. It was also proposed that paragraph 4.5 be amended to read 'Any individual who considers that they have a potential or actual conflict of interest which relates to an item of business at a meeting, must advise the Chair of the Pension Board **and the Chief Accountant** prior to the meeting.....'

Members raised no objections and had no further comments.

The officer's recommendation was moved, seconded and, when put to a vote, unanimously agreed.

**RESOLVED: That Pensions Committee approved the Conflicts of Interest Policy for implementation, subject to the proposed amendments outlined.**

55. **COMMUNICATIONS POLICY REVIEW** (*Agenda Item 11*)

Yvonne Thompson-Hoyte, Interim Pensions Manager, introduced the report. The Committee was informed that the previous Communications Strategy had been approved by the Council in June 2017 and it needed to be updated every three years. The Strategy covered who the Fund would communicate with and methods of communication. Members were advised that there had been no regulatory changes in the last three years that would affect the Strategy. Minor amendments and updates had been made but the substance remained the same.

Members raised no objections and had no comments.

The officer's recommendation was moved, seconded and, when put to a vote, unanimously agreed.

**RESOLVED: That Pensions Committee approved the Communications Strategy for the London Borough of Hillingdon Pension Fund.**

56. **RISK REGISTER REPORT** (*Agenda Item 12*)

James Lake, Chief Accountant, introduced the report. It was confirmed that the risk register had been updated in consultation with Councillor Goddard:

- In March 2020 a new risk (PEN 14) been added in relation to business continuity and Covid-19;
- PEN 01 had been upgraded to reflect potential loss in investments as a result of Covid-19;
- PEN 04 had also been upgraded to reflect a higher risk of inflationary pressures due to Government and BoE Covid-19 interventions;
- PEN 07 in relation to poor performance of the outsourced administrator had been updated and;

- PEN 13 in relation to the Management buy-out of KPMG’s pensions advisory service had been updated to indicate that there had been no issues in terms of service delivery.

Members had no questions or comments.

The officer’s recommendation was moved, seconded and, when put to a vote, unanimously approved.

**RESOLVED: That Pensions Committee considered the Risk Register in terms of the approach, the specific risks identified and the measures being taken to mitigate those current risks.**

57. **DRAFT WORK PROGRAMME** (*Agenda Item 13*)

In relation to the Draft Work Programme, it was confirmed that the October meeting would take place on 28 October 2020 rather than 29 October as indicated in the agenda pack. The report would be updated to reflect this change. An update on the McCloud Judgement in October would be added to the Work Programme.

In respect of the Work Programme, Members requested that the training statement continue to be considered outside future Pensions Committee meetings. It was also noted that, in January 2020, it had been agreed that ‘Responsible Investment’ would appear on the agenda as a discreet item going forward. Members suggested that, for future meetings, the Part II agenda item ‘ESG & Voting Update’ be renamed ‘Responsible Investment.’

The officer’s recommendations were moved, seconded and, when put to a vote, unanimously agreed.

**RESOLVED That the Pensions Committee:**

- 1) **Noted the dates for Pensions Committee meetings; and**
- 2) **Made suggestions for future agenda items, working practices and / or reviews. The following changes were agreed: the trading statement to be considered outside future Pensions Committee meetings and the Part II agenda item ‘ESG & Voting Update’ to be renamed ‘Responsible Investment.’**

58. **INVESTMENT PART II - STRATEGY REVIEW AND MANAGER UPDATES** (*Agenda Item 14*)

*This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed ‘information relating to the financial or business affairs of any particular person (including the authority holding that information)’ (paragraph 3 of the schedule to the Act).*

The Committee received confidential information on the current market update which covered details of the current market climate and performance of various investment vehicles and updates on Managers' reports.

59. **ESG & VOTING UPDATE** (*Agenda Item 15*)

	<p><i>This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).</i></p>
60.	<p><b>ADMINISTRATION PART II</b> (Agenda Item 16)</p> <p><i>This item was discussed as a Part II item without the press or public present as the information under discussion contained confidential or exempt information as defined by law in the Local Government (Access to Information) Act 1985. This was because it discussed 'information relating to the financial or business affairs of any particular person (including the authority holding that information)' (paragraph 3 of the schedule to the Act).</i></p>
	<p>The meeting, which commenced at 5.00 pm, closed at 7.06 pm.</p>

These are the minutes of the above meeting. For more information on any of the resolutions please contact Democratic Services - 01896 250636 or email: [democratic@hillington.gov.uk](mailto:democratic@hillington.gov.uk) on 01895 250185. Circulation of these minutes is to Councillors, Officers, the Press and Members of the Public.

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