

## Minutes

### PENSIONS COMMITTEE

28 October 2020

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



HILLINGDON  
LONDON

	<p><b>Committee Members Present:</b> Councillors Martin Goddard (Chairman) Philip Corthorne (Vice-Chairman) Tony Eginton Raymond Graham John Morse (Opposition 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 Fund Manager Paul Whaymand, Corporate Director of Finance</p> <p><b>Also Present:</b> Roger Hackett, Pensions Board Member Tony Noakes, Pensions Board Member Hayley Seabrook, Pensions Board Member Craig Alexander - representing Hymans Robertson LLP David O'Hara, - representing Isio Larisa Midoni - representing EY Suresh Patel - representing EY Clare Scott – Independent Adviser</p>
65.	<p><b>APOLOGIES FOR ABSENCE</b> (<i>Agenda Item 1</i>)</p> <p>There were no apologies for absence.</p>
66.	<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 virtual meeting 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 virtual meeting during discussion of the items.</p>
67.	<p><b>MINUTES OF THE MEETINGS DATED 28 JULY 2020 AND 30 SEPTEMBER 2020</b> (<i>Agenda Item 3</i>)</p> <p><b>RESOLVED:</b> That the minutes of the meetings dated 28 July and 30 September</p>

**2020 be approved as an accurate record.**

68. **TO CONFIRM THAT ITEMS MARKED PART I WILL BE CONSIDERED IN PUBLIC AND THOSE MARKED PART II WILL BE CONSIDERED IN PRIVATE** (*Agenda Item 4*)

It was confirmed that items 1 – 14 were marked Part I and would be considered in public. Items 15 – 19 were marked Part II and would be considered in private.

69. **EXTERNAL AUDIT REPORT FOR THE PENSION FUND** (*Agenda Item 5*)

Members were informed that the Pensions Fund Annual report had been completed and would be handed to EY the following week for their audit. It had been demonstrated in the report that there had been a collaborative approach between EY and Hillingdon regarding the level 2 and level 3 adjustments. It was noted that, on page 26 of the EY report there had been some tidying up in relation to pricing.

Suresh Patel and Larissa Midoni of EY presented the report. Key points included:

- The Pensions Fund audit had nearly been completed. Membership data testing was the principal area of outstanding work;
- Re. pooled property investments, valuers of property had been required to insert a caveat in their valuation reports re. the impact of Covid-19; an emphasis and matter paragraph had been inserted in EY's auditing report to reflect this;
- The auditors were happy with the Pensions Fund disclosures in the accounts, including the cash flow forecast of the Fund and were satisfied with the position of the Pension Fund for the next 12 months;
- It had been agreed that pooled property assets be classified as level 3 due to increased concern regarding valuation of property due to the impact of Covid-19;
- Membership data quality was currently being tested – this data test was undertaken every 3 years;
- Work was being undertaken with managers to obtain supporting documents to support numbers for pensioners;
- Some of the outstanding matters set out in Appendix B of the report had now been progressed. It was estimated that the Annual Report would be ready in early November in time for sign off.

Members requested further clarification regarding issues with the membership data. It was confirmed that other Local Government Pensions Fund schemes were having similar issues. In Hillingdon, there were some concerns regarding the quality of the data / the data itself. In some cases there were missing documents relating to older members of the Fund. Furthermore, some data had been stored in an old system and management had been unable to retrieve the information. The Committee was advised that there had been some data gaps when the information was transferred from Capital to Surrey. Officers had been running projects throughout the year to improve the data quality – there had been significant improvements but gaps still existed. This was an ongoing process in terms of data cleansing and keeping the data up-to-date. EY had requested copy payslips but Surrey could not provide these as soft copies were not held in their systems.

In response to enquiries from the Committee, it was confirmed that the data set was generally good for actual and pensioner members and the gap related mainly to deferred members. Councillors requested clarification as to the percentage of the overall fund that fell within the category of problematic data. Officers agreed to explore

this further and report back to the Committee.

It was further confirmed that a recent address tracing exercise had been quite successful and the quality of the information had improved recently. Deferred members were monitored regularly and projects were in place to look at missing data in relation to these members.

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

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

70. **INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE - PART I**  
*(Agenda Item 6)*

James Lake, Chief Accountant, presented the report.

Members were informed that, between March and June, the Fund had increased by £80m to £1,069m. As at 28 October 2020, the unaudited value of the Fund was £1,075m. In terms of performance 8.04% had been returned over the quarter – this was behind benchmark. The main impact on performance had related to the two active equity managers UBS and Epoch who were behind benchmark by 14% year to date and 10% year to date respectively.

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

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

71. **STEWARDSHIP CODE 2020 DRAFT REPORT** *(Agenda Item 7)*

James Lake, Chief Accountant, presented the report.

It was confirmed that the aim of the Stewardship Code was to set out principles for asset owners and managers. The Fund was currently signed up to the 2012 Code and it was noted that the new 2020 Code was far more onerous. 12 principles had to be applied and explained to the required standard and the Pensions Fund had to submit an annual Stewardship report demonstrating how the principles had been met over the previous 12 months. The deadline for submission of the final report was 30 April 2021. If the report met the criteria, Hillingdon Pension Fund would be included in the list of signatories to the Code. If approved, Hillingdon would work with Isio to prepare the annual report in the future.

Members requested further clarification regarding the likely impact in terms of resources and the achievability. It was confirmed that officers would work with Isio to manage this. It was hoped that the April deadline would be achievable.

Members noted that reporting under the new Code was extremely onerous and would be challenging. It was noted that 3 Fund managers were not signed up to the Code themselves. However, the new Code represented best practice and it was essential that Hillingdon signed up to it.

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

**RESOLVED: That the Pensions Committee agreed to sign up to the UK 2020 Stewardship Code.**

72. **GOVERNANCE POLICY UPDATE** (*Agenda Item 8*)

Yvonne Thompson-Hoyte, Interim Pensions Fund Manager, presented the report.

The Committee was advised that Hillingdon Council was required by regulation to publish a Governance policy which was renewed every three years. The policy had been reviewed and updated and presented to the Pensions Board in September 2020 for comment. Comments had also been sought from AON, the governance advisors to the Board.

The key modification was the major change in the governance structure of the London CIV. All other changes were minor. The Committee was being asked to approve the draft review for publication. Key changes were set out on page 149 of the agenda pack.

The Committee noted that this was an important document and the Pensions Board had spent a lot of time considering the Policy. The number of emerging new governance policies coming from the London CIV was noteworthy.

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

**RESOLVED: That the Pensions Committee approved the draft Governance Policy and Compliance Statement for publication.**

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

Yvonne Thompson-Hoyte, Interim Pensions Fund Manager, presented the administration report.

Members were informed that self-service registration numbers continued to increase and now stood at 42% of members. Annual benefit statements had all been issued to meet the deadline of 31 August and annual allowance letters had been issued on time. The data score report had now been received which showed that the data specific to the scheme was up from 86% to 94.7%. The common data store had improved from 80% in 2019 to 88% in 2020.

The Committee was advised that KPIs continued to decline. This had been raised with Surrey and a meeting had been requested to discuss ongoing concerns. The September report had now been received and the figures showed further decline. The information had been sent to a senior member of staff at Surrey requesting a meeting and an explanation.

It was confirmed that the reduced service desk hours and home working at Surrey continued to be in place due to the pandemic. Surrey planned to move offices in the future. Members noted that the Council would need to continue to work with Surrey for another year therefore it was important that these concerns be addressed going forward.

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

**RESOLVED: That the Pensions Committee noted the report.**

74. **REGULATORY UPDATES** (*Agenda Item 10*)

It was agreed that this was a complex area therefore a separate detailed training session was required.

Craig Alexander of Hyman Robertson LLP presented the report. Members were informed that current world events were significantly impacting LGPS and other pensions. In terms of regulatory changes, two key areas of note were the McCloud Ruling and the Exit Payment Reform (£95k cap).

It was explained that McCloud was a court case brought by a judge against the Government. It was a discriminatory case in relation to age and related to the time when public service schemes changed from final salary schemes to average earnings schemes (around 2014). The new schemes stipulated that those within 10 years of retirement at 2012 received a certain benefit and those who were not got a different benefit. This was clearly discriminatory and the Government lost the case. The only solution was to level everyone up to receive the better benefit which was what had happened. Administratively this was challenging as some members received the best of two benefits between 2012 and 2022 therefore extra calculations were required – it was estimated that approximately 25% of members fell into this category. Certain data had not been gathered for these members and it was difficult to obtain said data many years later. Members were informed that data would also need to be held for a long time into the future. From a funding point of view the impact was relatively small but the calculations had to be carried out for all the affected members. This would only apply for those who had received salary increase significantly above inflation which was a relatively small number; however, this was being projected into the future and an individual's future pay at retirement was an unknown quantity.

A key project plan needed to be put in place – data would have to be gathered from employers – including historic data. The Government would probably allow about two years to resolve this and planning was essential. The Committee needed to ensure the required resource and expertise were available to get the project off the ground and ensure members' benefits were not affected. A wide-reaching communication exercise would be required to ensure employers and members were kept in the loop.

In response to Members' requests for clarification, it was confirmed that this was the final ruling and no further changes in legislation were expected.

Members were also informed of the Goodwin Impact Ruling – another discriminatory case which the Government had lost. It was confirmed that far less members were affected by this but some administration and tracing would be required.

With regards to the Exit Payment Cap (£95k cap), it was reported that this was very complex and could potentially affect all members of the scheme. Members were informed that, in 2015, the Government had stipulated that all public service workers should have a 95k cap on their benefits at retirement. Initially it had been thought that pensions would not be included in this calculation. However, when the rules were clarified, it transpired that pensions were included for the LGPS. This meant that the

scheme would capture those on moderate salaries with a long level of service rather than the 'fat cats' it was aimed at. As a consequence of this change, benefits would have to be reduced to keep total pay-outs below the £95k cap. Also introduced alongside this ruling was another stipulation that those who took their LGPS unreduced pensions early would no longer receive their statutory redundancy payments; alternatively they could elect to reduce their pension in order to take the full statutory redundancy payment or they could take the full redundancy payment and wait until normal retirement age. This was very confusing for members. The consultation on this was due to finish on 4 November 2020. Members were informed that, on the morning of 28 October 2020, a legal challenge had been launched against this Exit Payment cap scheme.

In terms of the impact on the Fund, the Fund would need to continue to process redundancies and retirements following the current regulations and guidance. It was essential that the Fund following all guidelines carefully.

Clarification was sought regarding the legal challenge. It was confirmed that the LLG Lawyers in Local Government had requested a judicial review. The LGA had drafted a response to the consultation stating that the situation was deeply flawed with regard to lower paid workers. In Hillingdon, sound actions had been taken to reduce exposure as much as possible.

It was confirmed that a further training session on these regulatory changes would be required.

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

**RESOLVED: That the Pensions Committee noted the regulatory changes and the impact on the pension scheme along with the timescale for implementation.**

75. **VOLUNTARY SCHEME PAYS POLICY** (*Agenda Item 11*)

Yvonne Thompson-Hoyte, Interim Pensions Fund Manager, presented the report. Members were informed that the policy arose from an HMRC regulation which stated that a member's pension benefit was allowed to grow by approximately £40,000 without attracting a tax charge; thereafter a tax charge was payable. If the tax charge was £2,000 or more, the member had the right to ask the scheme to pay it to the HMRC on their behalf in return for a reduction in their benefit – this was the Mandatory Scheme Pays (MSP). If members incurred a tax charge less than £2,000, the scheme was not obliged to pay this. However, many authorities had used their discretion to set out the conditions under which members who did not meet the MSP criteria could ask the scheme to pay that money on their behalf for a similar reduction in their benefit. The approval of the Pensions Committee was sought in relation to Hillingdon's draft policy on voluntary scheme pays.

In response to questions from the Committee, it was confirmed that the policy was not entirely new in terms of the mandatory side. It was noted that, increasingly, members who did not meet the criteria had been requesting this service and each case had been considered individually. It was felt that a clear and transparent policy on this matter was now required.

Members queried some of the dates in the report – 31 July 2022 on page 195 and 31 July 2021 on page 199 of the report. It was agreed that these dates would be double-

checked and the Committee would be kept informed.

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

**RESOLVED:**

- 1) That the Pensions Committee approved the Scheme Pays Policy for implementation subject to confirmation of dates on pages 195 and 199 of the report.**

76. **PENSION FUND ANNUAL REPORT** (*Agenda Item 12*)

James Lake, Chief Accountant, introduced the Pension Fund Annual Report. Members were advised that the Pension Fund was required to produce an Annual Report and publish it by 1 December each year. EY would commence their audit of the report on 5 November to ensure its compliance against the guidance and consistency with the annual audited accounts. The final audit consistency statement would be brought to Audit Committee on 24 November for approval. The Pensions Committee was asked to approve the draft.

Members raised no objections.

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

**RESOLVED: That the Pensions Committee approved the Fund Annual Report for publication, subject to external audit sign off on consistency.**

77. **RISK REGISTER REPORT** (*Agenda Item 13*)

James Lake, Chief Accountant, introduced the Pension Fund Risk Register report. Members were informed that the Risk Register had been updated in consultation with Councillor Goddard and two amendments had been made from the previous quarter. A new risk had been added - PEN 08 - which related to the transfer of administration services from Surrey to Hampshire. This risk had been given a rating of E1. In addition to this, PEN 14 had been updated which covered the change of ownership between KPMG to Isio – the risk rating had been reduced to the lowest level as Isio were now completely self-sufficient.

Members were satisfied with the report and raised no concerns.

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

**RESOLVED: That the 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.**

78. **DRAFT WORK PROGRAMME** (*Agenda Item 14*)

James Lake, Chief Accountant, introduced the Work Programme 2020/21.

Members were requested to contact officers with any suggestions or requests in

relation to the Work Programme. The requirement for regulatory training had been noted; a date would be agreed with Members and Hymans Robertson. Democratic Services would provide officers with Committee dates for the 2021/2022 municipal year.

The officer's recommendation was 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.**

79. **PART II MINUTES OF THE MEETING HELD ON 30 SEPTEMBER 2020** (*Agenda Item 15*)

**RESOLVED: That the Part II minutes of the meeting dated 30 September 2020 be approved as an accurate record.**

80. **INVESTMENT PART II - STRATEGY REVIEW AND MANAGER UPDATES** (*Agenda Item 16*)

*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.

81. **LCIV GOVERNANCE UPDATE** (*Agenda Item 17*)

*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).*

82. **RESPONSIBLE INVESTMENT UPDATE** (*Agenda Item 18*)

*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).*

83.	<p><b>ADMINISTRATION PART II - PENSIONS ADMINISTRATION UPDATE</b> (<i>Agenda Item 19</i>)</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 7.43 pm.</p>

These are the minutes of the above meeting. For more information on any of the resolutions please contact Liz Penny on 01895 250185. Circulation of these minutes is to Councillors, Officers, the Press and Members of the Public.