

## Minutes

### PENSIONS COMMITTEE

17 July 2019

Meeting held at Committee Room 6 - Civic Centre,  
High Street, Uxbridge



	<p><b>Committee Members Present:</b> Councillors Martin Goddard (Chairman) Philip Corthorne (Vice-Chairman) Teji Barnes Tony Eginton John Morse (Labour Lead)</p> <p><b>LBH Officers Present:</b> Tunde Adekoya, Pension Fund Accountant Sian Kunert, Head of Pensions, Treasury and Statutory Accounts James Lake, Lead Corporate Accountant Liz Penny, Democratic Services Officer Paul Whaymand, Corporate Director of Finance</p> <p><b>Also Present:</b> Craig Alexander, Hymans Robertson Adrian Balmer, Ernst &amp; Young Roger Hackett, Pensions Board Member Zak Muneer, Pensions Board Member Tony Noakes, Pensions Board Member Clare Scott, Independent Investment Advisor Andrew Singh, KPMG Representative</p>
3.	<p><b>APOLOGIES FOR ABSENCE</b> (<i>Agenda Item 1</i>)</p> <p>Apologies were received from Hayley Seabrook, Pensions Board Member.</p>
4.	<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 Teji Barnes declared a Non-Pecuniary interest in all agenda items because she was a deferred member of the Local Government Pension Scheme. She 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>

5.	<p><b>MINUTES OF THE MEETINGS DATED 20 MARCH 2019 AND 9 MAY 2019</b> (<i>Agenda Item 3</i>)</p> <p><b>RESOLVED That: the minutes of the meetings dated 20 March 2019 and 9 May 2019 be agreed as an accurate record.</b></p> <p>Roger Hackett, Pensions Board Member, requested an update regarding the breach reported within the Administration Report item in the minutes of the meeting dated 9 May 2019. Members were informed that letters were to be sent out to all those who could potentially have been affected by said breach. No comments had been received from the regulator.</p> <p>Councillor Goddard extended his thanks to Councillor Corthorne for his invaluable contribution to the Pensions Committee which he had chaired for 21 years. Councillor Corthorne welcomed Councillor Goddard to his new role.</p>
6.	<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 the items marked Part I (items 1 -13) would be considered in public and the item marked Part II (item 14) would be considered in private.</p>
7.	<p><b>EXTERNAL AUDIT OF THE PENSION FUND ACCOUNTS</b> (<i>Agenda Item 5</i>)</p> <p>The Draft Pension Fund Accounts for 2018/19 as taken from the Council's financial statements were attached to the agenda for Committee review, prior to the Council's financial statements sign off at the forthcoming Audit Committee. The draft report provided to Members in the pack detailed the work of the External Auditor - EY - on the audit of the 2018/19 Pensions Fund Accounts. The audit was due to be completed by the end of July deadline. It was reported that, since the report had been prepared, an adjustment of £7m had been identified; this was based on information that had not been available at the time. Outstanding matters were listed in Appendix B of the report on page 45 of the agenda pack. Members were informed that all outstanding matters had now been completed with the exception of the annual report and accounts which had a later statutory deadline.</p> <p>In response to questions from the Committee, it was confirmed that the £7m adjustment was positive rather than negative. The accounts would be adjusted by a maximum of £7m to reflect this increase in asset value. Whilst it was confirmed that the level of investment in level 3 assets was consistent year on year; it was acknowledged that the risk profile could potentially increase - the situation would be monitored.</p> <p>Members suggested that liquidity be added to the register as an additional risk factor. It was noted that, compared with the previous year's figures, the latest accounts indicated a cash neutral position. Councillors requested further clarification regarding prospects for the future and were advised that it was likely that there would be a slight negative position in future years in terms of cash flow. It was noted that, following the 2016 valuation, Hillingdon Council had not seen an increase in contribution rates for the first two years but an increase had been applied in 2019/20 so income would be higher.</p> <p>Councillors commented that, given the current value of liabilities (1.695m), it seemed the Pensions Fund deficit position had increased. The Hymans Robertson</p>

representative advised Members that the March 2016 and March 2019 figures were not dissimilar. Liabilities had grown but assets had grown strongly too. The deficit would have increased slightly but funding levels were broadly similar. The long term outlook was stable.

**RESOLVED That Pensions Committee:**

- 1. noted EY's findings on the audit of the Pension Fund accounts for 2018/19.**

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

This item was preceded by a training item from Hymans on The Triennial Valuation. Key points highlighted included:

Pensions Landscape

- The Committee was informed that the LGPS (of which Hillingdon was a member) was a good scheme which differed from other public sector schemes as it was funded - investments helped to pay for the benefits;
- Investment returns, Member contributions and Employer contributions were paid into the Hillingdon Pension Fund and benefits to members and dependants were drawn from it. The Fund had to meet balance of cost over the longer term;
- The key decision was the balance between contributions and investment returns.

The Valuation

- An Actuarial valuation was required to comply with legislation and as part of a continual 'health check' on fund solvency - it was essential to ensure members benefits were paid;
- A valuation was completed for each individual member of the Pension Fund - this was a complex piece of work;
- Future cashflows were projected for every member to build up the picture for the whole fund. The valuation was based on financial and demographic assumptions - amounts paid and probability of payment;
- Postcode was a key indicator of longevity - there was no such thing as a 'typical' member;

Employer Funding Strategies

- A three-step approach was taken in terms of the Funding Strategy - this approach determined the parameters for the risk-based method;
- The end result was a balance between costs and returns.

The Road Ahead

- A lot of work was already underway and the final sign off would be in March

2020;

- Post 2020, LGPS funding valuations would be brought in line with other public sector cost sharing valuations and would be quadrennial - conducted every four years - rather than every three years. The next valuation would be due in 2024 but it was possible that an interim valuation would be undertaken in 2022;
- The outlook for 2019 was similar to 2016 - investment was strong.

In response to questions from the Committee, it was confirmed that Hymans Robertson's reporting was typically more prudent than that of some other actuaries. The Government's rationale for opting to extend the period of valuation from three to four years was unclear. It was hoped that the interim valuations would be helpful. Members were advised that, if an employer were to become insolvent, the deficit would be low and would be shared between the other employers in the scheme. Members were reassured that such an occurrence was a rarity.

Clare Scott introduced herself to the Committee as the new Independent Investment Advisor. Sian Kunert, Head of Pensions, Treasury and Statutory Accounts, commented that the fund had performed quite well - the total size of the fund was £1,062m at 31 March 2019 which was an increase of £51m from £1,011m at the end of the previous quarter. There was an overall investment return over the quarter of 5.10%, which was - 0.54% less than the benchmark. The estimated funding position at 31 March 2019 was 74.06% (75% as at 31 December 2018).

Members were informed that the fund had started to disinvest from the Ruffer portfolio. However, there was still some investment in Ruffer which was performing quite well currently. It was expected that the London CIV Infrastructure Fund would receive FCA approval by October 2019.

The Committee was advised that oversight of monitoring managers was important. Greater visibility and access to information was desirable from the LCIV.

With regards to UBS Equity, Members were informed that there were a number of staff changes at present but advisors would watch closely. It was confirmed that property was expensive to transact. It was suggested that UBS be put on an advisory mandate whereby they would have to approach the Fund for a decision rather than trading independently to aid reduced transaction costs with pooling on the horizon.

Councillors commented that the Fund appeared to be heavily weighted to passive investment at present. Members enquired whether, in view of the current climate of political uncertainty, more active investment and contingency plans should be considered. It was confirmed that the Fund was largely invested globally therefore matters such as Brexit did not present a significant risk. Members were advised that larger companies were holding up well and it was difficult to find active managers who consistently outperformed. It was reported that the Fund had some active management in infrastructure and private credit. The preference was to have limited active management as it required more managing and more expense; passive fees were lower.

**RESOLVED** That, following consideration of the Part II papers, Pensions Committee:

1. Considered and discussed issues raised in the training item;
2. Discussed the Fund performance update and agreed any required

- decisions in respect of mandates or Fund Managers;
3. Delegated the implementation of any decisions to the Officer and Advisor - Investment Strategy Group;
  4. Agreed to suspend the UBS Property Fund performance target and change to an advisory mandate.

9. **RESPONSIBLE INVESTMENT AND ESG** (*Agenda Item 7*)

Sian Kunert presented the report which outlined the voting and engagement of ESG issues and provided an overview of climate change in the quarter ending 31 March 2019. Members were informed that ESG, in particular climate change, had continued to increase in importance in policy and public interest. The UK government had declared a climate emergency in May 2019 and was committed to net zero emissions by 2050. In October 2018 the Pensions Committee had recognised climate change as a significant risk and requested that it be added to the risk register.

It was noted that Hillingdon did not currently have its own responsible investment policy which was a cause for concern. It was agreed that a specialised training workshop (or series of workshops) on responsible investment be held outside of the Pensions Committee meetings - to be attended by a sub-set of the Committee. Any decisions or recommendations would be brought to the main Pensions Committee for approval.

**RESOLVED That:**

1. **A specialised training workshop (or series of workshops) to discuss responsible investment be held outside of the Pensions Committee meetings - to be attended by a sub-set of the Committee;**
2. **Pensions Committee note the content of the report.**

10. **ADMINISTRATION REPORT** (*Agenda Item 8*)

Sian Kunert introduced the report which provided an update of the administration of the London Borough of Hillingdon Fund of the LGPS, both in relation to Surrey County Council (SCC) and internally at Hillingdon.

Members were informed that the sign up to my-pension-online was currently 16%; it was envisaged that this would increase in August when annual benefit statements were dispatched.

It was confirmed that Data Cleansing was taking place across four strands - the finalised data would be passed to Hymans at the end of July.

The Committee was advised that KPIs were becoming more stable and positive; annual benefits statements were on track.

In terms of the Internal Disputes Resolution Policy, it was confirmed that all authorities were required to have a two stage policy to hear appeals against decisions made in respect of benefits. It was requested that the Pensions Committee agree to change the Hillingdon policy to name the Head of Pensions, Treasury and Statutory Accounts as the nominated officer in all Stage 1 appeals and the Corporate Director of Finance or Head of HR as the appointed Officer for Stage 2 appeals.

**RESOLVED That Pensions Committee:**

**1. Agreed the proposed changes to the Internal Disputes Resolution Policy as detailed in the Administration Report.**

11.	<p><b>REGULATORY REPORT</b> (<i>Agenda Item 9</i>)</p> <p>Committee Members were informed that this was a new report and was for information purposes only.</p> <p><b>RESOLVED That: Pensions Committee noted the report.</b></p>
12.	<p><b>TRAINING REPORT AND POLICY</b> (<i>Agenda Item 10</i>)</p> <p>The report provided an update on the training and development of Pensions Committee members in line with the Training Policy approved in December 2015. It was confirmed that there was a requirement to review the Policy every three years. In respect of the completion of their training needs analysis, Councillors requested that links to relevant information be provided for the purposes of clarity.</p> <p><b>RESOLVED That Pensions Committee:</b></p> <ol style="list-style-type: none"><li><b>1. Approved the revised Training Policy;</b></li><li><b>2. Agreed priority training topics for the work plan;</b></li><li><b>3. Considered the addition of a separate training item on EGS issues prior to the October Committee.</b></li></ol>
13.	<p><b>RISK MANAGEMENT POLICY</b> (<i>Agenda Item 11</i>)</p> <p>The Risk Management Policy for the Pension Fund had been approved on 15 June 2016. The Policy had now been revised and reviewed by Pensions Board in advance approval in April 2019. The changes to the Policy were minor.</p> <p><b>RESOLVED That Pensions Committee:</b></p> <ol style="list-style-type: none"><li><b>1. Approved the revised Risk Management Policy.</b></li></ol>
14.	<p><b>RISK REGISTER REPORT</b> (<i>Agenda Item 12</i>)</p> <p>The report aimed to identify to the Pensions Committee the main risks to the Pensions Fund to enable them to monitor and review going forward. There were no risks rated Red.</p> <p>Members were informed that there were currently 11 risks being reported on. Risk PEN04 on pay and price inflation had been amended to better define the risk as relating to the risk to employers in relation to contribution rates. A new risk PEN05 had been added for the risk of inflation, which was the Fund's greatest investment risk. An additional new risk PEN11 had been added to identify the risk of liquidity and cash flow as pensions funds were increasingly becoming cash flow negative on member activities.</p> <p>In relation to risk PEN09, Councillors were advised that the Pensions Board had an interest in the matter of cyber security. This topic would be considered at the next meeting of the Board in September at which the Council's IT department would be asked to present to Board Members as to what would happen in case of a breach.</p> <p><b>RESOLVED That Pensions Committee:</b></p>

	<p><b>1. Considered the Risk Register in terms of the approach, the specific risks identified and the measures being taken to mitigate those current risks.</b></p>
15.	<p><b>DRAFT WORK PROGRAMME</b> (<i>Agenda Item 13</i>)</p> <p>This report was to enable the Pensions Committee to review planned meeting dates and forward plans.</p> <p><b>RESOLVED That the Committee:</b></p> <ol style="list-style-type: none"> <li><b>1. Confirmed the dates for Pensions Committee meetings, and;</b></li> <li><b>2. Made suggestions for future agenda items, working practices and / or reviews.</b></li> </ol>
16.	<p><b>INVESTMENT STRATEGY AND FUND MANAGER PERFORMANCE PART II</b> (<i>Agenda Item 14</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 Committee received confidential information on the current market update which covered details on the current market climate and performance of various investment vehicles and updates on Managers' reports</p> <p><b>RESOLVED: That the information be noted, together with the performance of Fund Managers.</b></p>
	<p>The meeting, which commenced at 5.00 pm, closed at 6.45 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.

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