

MINUTES OF THE MEETING OF THE PENSIONS COMMITTEE AND BOARD HELD ON MONDAY, 23RD JULY, 2018, 7.00 - 8.45 pm

PRESENT:

Councillors: Matt White (Chair), John Bevan (Vice-Chair), Kaushika Amin, Paul Dennison, Khaled Moyeed, Viv Ross, Ishmael Owarish and Randy Plowright

184. FILMING AT MEETINGS

The Chair referred Members present to agenda Item 1 as shown on the agenda in respect of filming at this meeting, and Members noted the information contained therein.

185. APOLOGIES FOR ABSENCE

Apologies for absence was received from Keith Brown.

186. URGENT BUSINESS

There were no items of urgent business.

187. DECLARATIONS OF INTEREST AND CONFLICTS OF INTEREST

No declarations of interest declared.

188. RECORD OF TRAINING UNDERTAKEN SINCE LAST MEETING

Cllr White, Cllr Bevan, Cllr Dennison, Cllr Ross, Cllr Amin, Randy Plowright and Ishmael Owarish attended a training session delivered by Hymans Robertson on 'Actuarial perspectives and your role'. 23/07

Further notification of training received prior to the meeting had been submitted as follows:

Councillor White

- Attended a briefing on the London CIV at their offices in Southwark. 2/07
- Attended the members' induction training at the Civic Centre. 3/07
- Attended the London CIV AGM. 12/07
- Attended a briefing from the LAPFF on workforce and governance issues at Ryanair. 18/07
- Attended LAPFF AGM. 19/07

Councillor Bevan

- IPE Towards a new pension settlement, book launch and briefing. 11/04
- SPS Investment Governance & Fiduciary management for Pension Funds. 12/04
- IPE Factor Investing. 17/04
- Pensions question time. 18/04
- SPS DC Pension Investment developments. 19/04
- STOXX Innovate 2 Invest. 25/04
- Pensions question time. 01/05
- MACQUARIE, Macro and Investment Outlook. 17/05
- Attended an AON meeting on Pension Trustee Effectiveness at the Leadenhall Building in the city. 26/05
- EDHEC Infrastructure investment. 07/06
- LGPS Alternative investment and equity protection summit. 19/06
- Haringey pensions training. 03/07
- Russell, investment update meeting 04/07
- LAPFF Ryanair investment issues briefing. 18/07
- LAPFF AGM. 19/07

Councillor Dennison

- Covered the training material from the training session on 3/07
- Completed all the online modules on the Pensions Regulator portal

Ishmael Owarish

- Pensions Committee and Board Induction Training and Local Government Pension Scheme (LGPS) Legislation, Governance, Roles & Responsibilities including the Haringey Joint Pension Committee & Board. 3/7
- Actuarial perspectives and your role presented by Hymans Robertson. 23/07

189. MINUTES

Resolved

That the minutes of the meeting held on the 20th of March 2018 be approved as a correct record of the meeting.

190. PENSION FUND ANNUAL REPORT AND ACCOUNTS

The Committee and Board considered the Pension Fund Annual Report and audited Accounts for 2017/18 for the Committee and Board's approval, presented by Thomas Skeen, Head of Pensions. The annual audit report from the Fund's external auditor BDO was also presented. The Committee was referred to Annex 2 for the full contents of the report and the recommendations as shown at 3.1 – 3.3.

The Committee and Board was referred to the financial statements and notes in Appendix 1 which showed that the value of the Fund's assets increased by £48m to £1,356m as at 31 March 2018. During the year, the rate of return on the Fund's investments was 4.40%. It was noted that this was 1.02% below the Fund's target of 5.42% for the year, however, it was emphasised that when this target figure was compared with that of other funds, it actually performed higher than the average.

The external auditor, BDO, was present to give an update to the Committee on the audit that they carried out on the Council's accounts. The auditor went through the pension fund accounts that has been prepared (Annex 2, Appendix 1). The auditor noted they were impressed with how the Pension team was carrying out the Council's duties as administering authority for Haringey Pension Fund.

With regard to the future, the auditor noted that in looking at the cash balances and investment plans, there was a balance of £3.1 million, which Council Officers had treated as part of the investment portfolio in the accounts, whereas BDO took the view that this should be treated as a current asset. BDO noted that this makes no bottom line difference to the value of the fund overall, but that this was noted in their audit report.

The auditor concluded stating that it was a thoroughly positive audit and that they were ready to sign on the pension fund account, however, would like it to be noted that there appeared to be some discrepancies in the actuaries sum and those presented by Haringey Council's accounts.

The independent legal advisor, John Raisin, spoke to the Committee about the report that he had prepared on 'Market Background 2017/18' for the Committee and Board to consider. Amongst the significant events that affected the market during this time, were:

- The United States Federal Reserve initiating a significant change of direction in monetary policy;
- The unpredictability of current administration in the USA;
- Japan continuing their quantitative easing programme;
- Since the end of last year, emerging markets had performed well.
- Due to the uncertainties surrounding the United Kingdom exiting the European Union, foreign investors were wary of investing in the United Kingdom.

With regard to cash balance, it was noted that the College of Enfield and Haringey was leaving the Fund imminently, which meant that approximately £40 million had to be made available to cover this transfer of pension funds. It was understood that this would now take place in September 2018, later than what was originally planned for. A further £8-10 million was set aside to cover the transfer of pension funds once the Shared Digital Service (SDS) project goes ahead. It was understood that this will now take place in October 2018, again later than what was originally anticipated.

In further discussing Shared Digital Service and the delay in this being delivered, it was noted that, as of 31 March 2018, it was understood that all of the Council's IT staff would move to Camden in April 2018, but this was revised and now only a percentage will. The Pension fund had set aside £8-10 million to cover the move of

pension assets attributable to any staff who transfer to Camden Pension Fund. The Committee queried whether assets could be sold as and when funding is needed because if the equity market had performed poorly, money might have been made by investing. It was noted that the Council was not able to foresee such issues and that it tries to prepare as best it can to cover contractual commitments and contingent liabilities. The Council plans on the basis that a bulk transfer was going to go ahead, based on information provided by services and employers, and it was regrettable when delays occur that the Fund cannot control. The Council carefully considers when it is appropriate to make cash available and whilst it could technically reinvest the money set aside for the above two pension fund transfers until the money is needed, there was a risk that the investment market may turn negative and that cash invested could lose value before it was needed.

In discussing the investment strategy and the asset allocation of 1% to renewable energy, the committee questioned why there was a discrepancy between this and the target benchmark allocation of 5% to renewable energy. It was noted that investment is illiquid and can usually take a significant period to meet the benchmark target as the idea behind the benchmark target was that this would be achieved gradually.

In discussing how benchmark figures were allocated, it was noted that it is the committee that sets these in the Fund's Investment Strategy Statement. The Committee had differing views over whether there would need to be a change in the current allocations to low carbon equity, between a cautious approach to allow the Committee to gain more experience before making such a judgement call and increasing the low carbon equity now to reflect the wishes of residents within the borough of Haringey. It was advised by the Independent Advisor that the Committee and Board could consider environmental factors but that these must not be to the detriment of the Fund. The Committee and Board was reassured that no decision has ever been taken recklessly and that reducing carbon has always been sought in an appropriate, measured way. It was noted that the Committee and Board only recently did a thorough review of stock market investment, including low carbon equity, in March 2018.

After discussion amongst the Committee, the following points were noted:

- In discussing management expenses, it was noted that the Fund previously had not contributed towards the costs of all officers, but this has been revised going forwards to ensure that recharging is fair and accurate. It was also noted that there is an industry wide move to make investment management expenses/fees more transparent;
- Regarding academy employees, the Council would not be able to present to the Committee the proportion of academy employees who are members of the fund, as they are not able to collect information about how many academy employees are not members of the fund; and
- Regarding the use of RPI, as opposed to the use of CPI, the Council's actuary noted that they do also use CPI. They use the RPI and then make a 1% deduction to this to get the CPI.

Resolved

That the Committee and Board:

- note the findings of the external auditor in their report attached in Annex 1.
- note and approve the Pension Fund Annual Report and Fund Accounts for 2017/18.
- gives the Chair of the Committee and Board and Director of Finance (S151 Officer) authority to sign the letter of representation to the Auditor as set out in paragraph 6.4 of the report.

Reason for Decision

The Committee and Board is required by law to approve the Pension Fund Accounts and Annual Report before the final version is published.

191. LOCAL GOVERNMENT PENSION SCHEME (AMENDMENT) REGULATIONS 2018

The Committee considered the report, presented by Thomas Skeen, on the Local Government Pension Scheme (LGPS) Regulations. The Committee noted that LGPS Regulations were updated in May 2018 by a new set of 'amendment' regulations – these update the previous 2013 Regulations. The report highlighted changes made within these regulations for the Committee and Board to note for information purposes.

The committee considered 'exit credits'. It was explained that employers who cease to participate as scheme employers can be due a credit payment, if it is assessed that they are leaving the fund in a surplus position – that is to say, that the assets held on behalf of that employer exceed the liabilities accrued to pay pension benefits for its employees. It was noted that the Fund could potentially have to pay exit credits, affecting its liquidity, investments and overall financial standing.

It was further noted that it is probable that some form of policy may need to be created that will address situations regarding exit credit. The new LGPS regulations came out at short notice and the Council was still looking into how to address any impact they might have.

It was queried whether the Fund had made an assumption on the potential sum of credit that it would be liable to pay if any given number of employees were to leave. The Committee was told that the Fund was looking at what the position is now and is considering various factors such as when contracts are due to end.

Resolved

The Committee and Board note the contents of this report.

192. FORWARD PLAN

The Committee and board considered the report, presented by Thomas Skeen, on the Forward Plan. The Forward Plan identified topics that would come to the attention of the Committee in the next twelve months and to seek Members input into future agendas. Suggestions on future training are also requested. The plan sets out the key activities anticipated in the coming twelve months in the areas of governance,

members/employers, investments and accounting. The Committee and Board was invited to consider whether it wished to amend future agenda items as set out in the work plan.

The Committee was told that this was a standard item that is considered at every meeting. The Committee's attention was drawn to the need for all members to complete the Public Sector Tool Kit and that it was a legal requirement for them to do so.

In discussion, the value of continuing to be a subscriber to the Pensions and Lifetime Savings Association (PLSA) was questioned. It was noted that several of the training courses that Members are invited to participate in are free and at no cost to the Council. With the various number of free training courses available, it was suggested that the Council reviews its continuing subscription to PLSA. In response, the Council highlighted that PLSA do provide a number of live training events and various seminars online but that this subscription could be reviewed to establish cost effectiveness.

It was noted that training provided by the Council is required. Members are not compelled to do any additional training outside of the Public Sector Tool Kit and the training sessions before committee meetings. It was, however, ideal that members participate in training courses, wherever possible to continue development. There was agreement amongst the Committee that the training sessions provided before the sessions were of great value to Members.

Resolved

The Committee noted the report and the forward plan.

193. RISK REGISTER - REVIEW / UPDATE

The committee considered the report on the Risk Register, as presented by Thomas Skeen. This report provided an update on the Fund's risk register and gave the Committee an opportunity to further review the risk score allocation. It was noted that this was a standard item on the agenda and the Committee had a legal duty to review internal controls and the management of risks.

The Committee noted the change in the probability of risk for '*Failure to adhere to LGPS legislation (including regulations, order from the Secretary of State and any updates from The Pension Regulator) leading to financial or reputational damage*' being reduced from 2 to 1 since the last meeting.

In accordance with the Committee's duty, it noted the two red rated risks on the Risk Register, namely:

1. 'Frequent and/or extensive turnover of committee members causing a loss of technical and operational knowledge about the Fund and an inexperienced Committee/Board' (*further discussed in Item 13*); and
2. 'The risk that the investment strategy adopted by London CIV through fund manager appointments does not fully meet the needs of the Fund'.

With regard to the second red rated risk, the Committee was informed that this has since been downgraded to 3 (from 5) following a review. This was due to positive interactions with the CIV in appointing one fund manager in 2017, and the significant savings being made on management expenses negotiated by the CIV on the Fund's behalf.

In discussing the overall outlook of risk at present, it was noted that, generally, the risks had been moving down but certain risks change from time to time and it was important for these to be identified for the Committee and Board to observe.

Resolved

That the Committee and board:

- note the risk register; and
- note the area of focus for this review at the meeting is 'Governance' and 'Legal' risks.

194. PENSION FUND QUARTERLY UPDATE

The Committee considered the Pension Fund Quarterly Update report, presented by Thomas Skeen, which is produced on a quarterly basis. The report provides an update from 31st May 2018, in respect of the following;

- Funding Level Update;
- Investment asset allocation;
- Investment performance; and
- Investment Update.

The Committee noted the indicative funding position of the Fund was 84%, as of 31 March 2018. This has increased from the most recent valuation level of 79%, in 31 March 2016. It was highlighted that this position was a deterioration from 31 December 2017 at 88.2%, following a stock market fall in the first quarter of 2018. It was noted that this showed just how volatile the value of the Fund can be.

The Independent Advisor gave an overview of the market background from January to March 2018. The month of March was affected by various issues, such as:

- rising inflation in the United States; and
- tension over trade tariffs imposed on China by the United states.

The Independent Advisor noted that March was a negative month for global equities. Overseas buyers had been notably absent from the UK's markets which could be attributed to the uncertainty surrounding the issue of the United Kingdom leaving the European Union. Finally, it was noted that emerging markets performed well in the period of January to March.

Resolved

That the information provided in respect of the activity in the three months to 31st

March 2018 is noted.

195. GOVERNANCE UPDATE

The Committee and Board considered a report, introduced by Thomas Skeen, on the governance update on the London Collective Investment Vehicle (CIV) governance structure and on the terms of appointments to the Pensions Committee and Board.

The Committee noted the changes in the governance structure of CIV, notably:

- General meetings, which all of the boroughs attend, will be held twice annually. These meetings will be in July (to approve the accounts), and in January (to approve the Medium Term Financial Strategy). These meetings will continue to be attended by either the Chair or Vice Chair of Haringey Pensions Committee and Board.
- Shareholder Committees will meet on a quarterly basis on a consultative capacity only, with 12 Shareholders represented: four S151 Officers, and eight Pension Chairs. The Pension Chairs would be selected via the collective political processes of the London Councils, providing political, geographical and gender diversity.

It was noted that, under the old system of governance, problems arose due to the sheer number of shareholders (32) trying to make decisions. The new structure of four S151 Officers and eight Pension Chairs was expected to create more effective dialogue by streamlining the number of participants in the decision making. Haringey Council did initially challenge the selection process of the eight Pension Chairs and questioned whether this would secure the best individuals for the committee.

In discussing the selection of the eight Pensions Chairs to attend the quarterly meetings of the shareholder committees, it was noted that, contrary to the objective of selecting chairs that reflect the political balance of London, the proposed chairs do not in fact do this. It was further noted that it was important for the Chair of the Pensions Committee and Board to build effective working relationships with the other Pension Committee Chairs.

Terms of appointment for the Pension Committee and Board

The Chair gave an update on the terms of appointment to the Pensions Committee and Board. Regarding his discussion with both Chief Whips, it was acknowledged of the need for continuity to ensure that members have the necessary knowledge and training to sit on the committee. Both Chief Whips have stated that they are committed to appointing the same members onto the Pensions Committee and Board each year within the election cycle, while recognising that Groups may wish to hold elections for their nominees for the Chair and Vice Chair positions. It was suggested that this would be a better alternative to the cumbersome approach of changing the Constitution of the Council to mandate 4 year terms for members of the Pensions Committee and Board. The Chair stated that this would be reviewed in 2 years' time to ensure that this approach is still a workable and effective one. However, it was noted in discussion that this approach only works for members of the Pensions Committee and Board who wish to remain on the committee.

Resolved

That the Committee and board:

- note the London CIV governance structure updates.
- note the verbal update given by the Chair of the Committee and Board after his conversation with both Chief Whips.

196. LOCAL AUTHORITY PENSION FUND FORUM (LAPFF) VOTING UPDATE

The Committee considered the report, introduced by Thomas Skeen, which provided an update on voting activities on behalf of the Fund. The Committee noted that the Fund was a member of the LAPFF and the Committee and Board has previously agreed that the Fund should cast its votes at investor meetings in line with LAPFF voting recommendations.

It was noted that the voting shareholders are encouraged to act ethically and responsibly and to vote accordingly. Whilst it is not possible to force fund managers to vote a particular way, the Fund was able to strongly advise them of the position it feels they should take. It was acknowledged that this advice is generally adhered to and voting is, more often than not, done in line with the Fund's position.

In discussion, the question was raised about what happened when a fund manager did not vote in line with the Fund's preferred position. In response, it was noted that, whilst the Fund is unable to force fund managers to vote a particular way, it is mandatory for fund managers to provide detailed reasoning when their vote is that against the preferred choice of the Fund. It was suggested that it might be helpful if future Pensions Committee and Board meetings were provided with an update on the rationale behind why some companies vote in a different way to how the Fund would like them to vote.

The Committee and Board questioned how effective it was to ask companies to vote a certain way, with particular reference drawn to Anadarko, which votes in compliance with the Fund's position only 52% of the time. The Committee was assured that engagement with companies is helpful and can have a positive investment impact. It was also highlighted to the Committee that engagement with companies is important in getting them to change their behaviour.

Resolved

The Committee note this report.

197. ADMINISTRATION REPORT

The Committee considered this report, presented by Janet Richards, which detailed potential new admissions to the pension fund. The Committee noted in the report:

- the steady increase of users visiting Haringey Website.

- the most recent internal audit of the pensions administration service, which showed a substantial assurance rating of the service, this is for members to note.
- the update to the Pensions Administration Discretionary statement to make it clear that Haringey Council will exercise the discretion to abate the pensions of former employees who are retired early, if they are re-employed by any of the scheme employers in the Haringey LGPS Pension fund.

The Committee was informed that this was a regular item on the agenda and that there were certain areas that needed improving, such as employer's provision of information to the fund.

It was drawn to the Committee's attention that, since the publication of the report, there was a new school in Haringey that had started to make some contribution to the Fund.

It was queried why, on page 235 of the Report Pack, Standing data was 'Amber' and not 'Green' (signalling weaker effectiveness of controls). It was noted that attaining information from outside providers can be challenging, and there are various factors that impact the delay or lack of information, such as turnover of staff.

In response to a question regarding the potential admissibility of new employees of ISS Mediclean Ltd as fund members, it was noted that this admission to the fund would be on a closed basis, meaning that new members of staff not employed on the date of the admission would not be eligible to join the fund.

Resolved

That the Committee:

- approve the admission of ISS Mediclean Limited as a new employer to the Pension Fund, subject to an Admission Agreement being entered into and to their securing a bond or a guarantee from a third party in line with the LGPS regulations, to indemnify the pension fund against any future potential liabilities that could arise.
- approve the admission of Haringey Education Partnership as a new employer to the Pension Fund, subject to an Admission Agreement being entered into, as detailed below, and note they will be included within the Council's pool of employers.
- approve the updated Discretionary Policy Statement.
- note that this report gives a breakdown of the amount of visits made to the Haringey pension fund website.
- note the most recent audit of the pensions administration service.

Reason for decision

New Admission Body to the Fund
ISS Mediclean Ltd

West Green School has tendered its cleaning service and the successful bidder was ISS Mediclean Limited. It is proposed that ISS Mediclean be admitted to the Haringey Pension Scheme as an Admission Body in relation to the provision of the cleaning Service for West Green School, subject to ISS Mediclean Ltd entering into an admission agreement with the Council so that those eligible employees can remain within the Haringey Pension Fund.

That an admission agreement satisfactory to the Council be entered into – in respect of the service contract and that the agreement is a closed agreement, as such that new members cannot be admitted.

The Employer contribution rate is 29% and the bond is £50,000. The staff are required to work no less than 50% of the time on their contract.

Haringey Education Partnership

Haringey Council has made a decision to commission statutory and strategic school improvement functions, and has entered into a contract with Haringey Education Partnership (HEP), under which HEP will carry out those functions for the Council.

It is proposed that HEP be admitted to the Haringey Pension Scheme as an Admission Body from 1 September 2018, subject to HEP entering into an admission agreement with the Council that is satisfactory to the Council, so that those employees designated by HEP as eligible will be entitled to be members of the Haringey Pension Fund.

Under Regulation 3(1)(iii) of the LGPS Regulation 2013, HEP has designated a class of employee eligible to join the pension scheme.

The designated eligible employees that the admission agreement will be open to are the Governor Support Officers and the Senior Governor Support Officers. The admission agreement will be closed to all other employees of HEP.

HEP will be included within the Haringey Council pool of employers, and they will pay the same employer contribution rate as Haringey Council, which is currently 24.9%.

198. NEW ITEMS OF URGENT BUSINESS

None.

199. DATES OF FUTURE MEETINGS

13 September 2018
20 November 2018
21 January 2019
14 March 2019

CHAIR: Councillor Matt White

Signed by Chair

Date