

MINUTES OF MEETING PENSIONS COMMITTEE AND BOARD HELD ON TUESDAY, 19TH NOVEMBER, 2019, 19:00 – 20:30

PRESENT: Councillor Matt White (Chair), Councillor John Bevan (Vice-Chair), Councillor James Chiriyankandath, Councillor Paul Dennison, Councillor Viv Ross, Councillor Noah Tucker, Ishmael Owarish and Keith Brown

311. 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.

312. APOLOGIES FOR ABSENCE

There were no apologies for absence.

Apologies for lateness were received from Councillor Tucker.

313. URGENT BUSINESS

There were no items of urgent business.

314. DECLARATIONS OF INTEREST AND CONFLICTS OF INTEREST

For transparency, Hymans Robertson declared it had a relationship with the ill health liability insurance provider at item 8. However, the Head of Pensions considered it was not necessary for Hymans Robertson to abstain from discussion on item 8.

315. RECORD OF TRAINING UNDERTAKEN SINCE LAST MEETING

Cllr White, Cllr Ross, Cllr Bevan, Cllr Dennison, Cllr Chiriyankandath, Keith Brown and Ishmael Owarish attended a training session delivered by Hymans Robertson – 19/11/2019.

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

Cllr Bevan

- Local Government Pension Investment Forum 03/09
- SAPS Property & Infrastructure Investment Strategies for Pension Funds 10/11
- SPS Current Investment Issues for Pension Funds 07/11
- DB Strategic Investment Forum 13/11
- SPS ESG & Sustainable Investment Issues for Local Authority Pension Funds 14/11

316. MINUTES

Regarding Item 299 – ‘Local Government Pension Scheme Governance Update from Independent Advisor’, the Independent Advisor to the Fund suggested adding the below sentence to the end of paragraph 2, to which the PCB agreed.

“However, based on the overall feedback received from stakeholders, Hymans Robertson did not favour or propose specific consideration of any of the four models of governance. Rather they proposed a governance approach based on an “outcomes based” approach, including assurance on the sufficiency of resources and regular independent review of governance together with enhanced training requirements and updates of both CIPFA and MHCLG guidance.”

In addition, regarding arranging a training session from the Fund’s Custodian – Northern Trust, the Chair suggested this be kept under review and arranged for a future meeting, if the PCB considered this was necessary.

RESOLVED

That the minutes of the meeting held on the 19th November 2019 be approved as a correct record of the meeting.

317. 2019 PENSION FUND VALUATION

The Head of Pensions, Thomas Skeen, introduced this report which provided information to the PCB regarding the 2019 fund valuation, which was underway. The PCB were taken through the report as set out.

In response to questions on the report, the following information was provided:

- It was noted that most LGPS funds would have had strong returns in their 2019 valuations, with Haringey being one of the highest performing funds.
- Given the Fund results showed a fully funded position of 100% at 31 March, the Fund was now in a position to test some potential variations to the fund’s investment strategy. Contribution rates for employers would also be reviewed, and some may be judged to be able to decrease, depending on the specific demographics and covenant strength of individual employers’ positions.
- In theory, it was possible for the government to make the LGPS effectively ‘pay-as-you-go’ schemes and remove their assets but this was unlikely and undesirable in the long-term as it could undermine safeguards of the funds.

RESOLVED

That the Committee and Board:

1. note the contents of this report, and any other verbal updates provided by officers, the fund actuary and the fund’s Independent Advisor in the meeting.
2. note the draft whole fund Valuation results attached at appendix 1.
3. note Haringey Council’s employer contribution rate results attached at appendix 2.

318. FUND ILL HEALTH EARLY RETIREMENT LIABILITY APPROACH

The Head of Pensions introduced this report which requested the PCB determine the Fund's approach to Ill Health Early Retirements – specifically the way that the, often large, liabilities arising from these are apportioned to employers who participate in the fund. The PCB were taken through the report and appendices as set out.

In response to questions on the report, the following information was provided:

- The existing external ill health liability insurance provided a blanket insurance policy to all employers of the Fund, with the exception of Haringey Council, which was self-insured. Prior to 2016, employers were able to choose their own ill health liability insurance provider, but this was too great an administrative burden to maintain.
- There were approximately 70 employers in the Fund.
- It would be possible to manage the risks of ill health retirements without external insurance if the Fund pooled all employers and adopted a self-insured approach across the whole Fund, with the costs shared evenly amongst the employers proportionally. However, there would be a risk if there was a local spike of ill health early retirements which, at the next valuation, would increase employer contribution rates.
- It was difficult to predict costs of ill health early retirement because they tended to be random in their frequency and varied year on year. It was noted that for the for the three financial years 2016/17 – 2018/19, for all employers (other than Haringey Council) there were 8 cases of ill health early retirements.
- Regarding 8.4 of the report, it was possible that were a member to refuse to be assessed by a doctor, then the Fund would not be able to pay their pension.
- Regarding the paying of the external insurance, it was noted that each employer's contribution to the Fund was increased by the amount of the premium and so the other contributions they paid were still the same. If the self-funded approach were to be adopted for all employers, then those contributions that previously went to the external insurance would be collected by the Fund which would then pay out the ill health early retirement payments as and when they occur.
- All ill health early retirements *had* to go through a rigorous process to confirm their legitimacy, with a doctor having the final sign off.
- If the Council had external insurance to cover the ill health early retirement payments over the previous three years and paid the same premium as the other employers, it would have paid around £3mil. The actual strain costs for that period were around £2.35mil. However, Officers accepted that the frequency of ill health early retirements was statically random and therefore some years would cost more than others if there were to be a spike in some years.
- The PCB in 2016 decided to self insure the Council as opposed to attaining external insurance to cover ill health early retirement payments.
- Regarding the frequency of reviewing a decision to adopt the self-insured approach across all employers, Officers suggested that this remain every three years as, due to the lack of frequency of ill health early retirements, it would not

be meaningful to review this in a shorter period as there was unlikely to be any significant statistical information within that period.

RESOLVED

1. That the Committee and Board note the contents of this report, and any other verbal updates provided by officers, the fund actuary and the fund's Independent Advisor in the meeting.
2. The Committee and Board agree to adopt a 'self insured' approach to ill health retirement liabilities from 1 April 2020, with a proportion of all employers' contributions being pooled to fund ill health early retirement costs when they materialise.

319. FORWARD PLAN

The Head of Pensions invited the PCB to note this report on the Forward Plan, which detailed the topics that would be brought to the attention of the PCB through to March 2020. The report also sought Members' input into future agenda items.

Regarding a query on the Cost Transparency Initiative (*an independent group working to improve cost transparency for institutional investors with the responsibility for progressing the work already undertaken by the Institutional Disclosure Working Group*), the Independent Advisor noted this was for asset managers and not a matter for the PCB.

RESOLVED

That the Committee and Board note the update on member training attached at Appendix 3.

320. RISK REGISTER - REVIEW/UPDATE

The Head of Pensions introduced this report on the Risk Register. This was a standard item on the agenda and the PCB had a legal duty to review internal controls and the management of risks. The PCB were informed of the changes to the Risk Register, as shown in Appendix 1.

RESOLVED

1. That the Committee and Board note the risk register.
2. That the Committee and Board note the area of focus for this review at the meeting is 'Funding and Liability' risks.

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

The Head of Pensions invited the PCB to note this report which provided an update on voting activities on behalf of the Fund. The Fund was a member of the LAPFF and the

Committee and Board had previously agreed that the Fund should cast its votes at investor meetings in line with LAPFF voting recommendations.

It was queried why Ryanair was included in the table on page 38, given the Fund held no shares in the company. Officers noted this had been included for completeness to show the voting activities of the LAPFF.

RESOLVED

That the Committee and Board note this report.

322. PENSION FUND QUARTERLY UPDATE

The Head of Pensions introduced this report which provided an update in respect of the three months to 30 September 2019, regarding the investment asset allocation, the Independent Advisor's Market Commentary and the Investment Performance.

Regarding the absence of the Fund's indicative funding position, it was noted this was due to the triennial valuation. Hymans Robertson confirmed that figure, as set at September 2019, would be included in the report at the PCB's next meeting.

The Independent Advisor outlined his report prepared at pages 47 to 50.

Regarding the Investment Performance table at page 45, Officers clarified that the dark green bar was the total assets of the Fund whilst the light green bar indicated the benchmark which the Fund had set for the asset managers to achieve. Detailing how the benchmark figures were calculated, Officers noted it was the composite of all targets of the fund managers in different asset classes.

It was queried why the Fund was not meeting the benchmark it had set for itself. In addressing concern over the underperformance of the Fund compared to the benchmark figures, Officers noted the underperformance was a result of a number of factors. For example, investments in renewable energy infrastructure distorted the figures as these were still in the early years of their investment and unlikely to make any significant returns until the latter years of their duration (which could be 10 to 12 years).

In the annual reports, the Fund's benchmark figures were compared to those of other funds to measure performance. Generally, the Fund's benchmark figure returns compared favourably to other funds set benchmark returns.

RESOLVED

That the information provided in respect of the activity in the three months to 30 September 2019 be noted.

323. INVESTMENT CONSULTANCY SERVICES CONTRACT

The Head of Pensions introduced this report which sought approval for a contract extension for the Fund's investment consultant, Mercer Ltd. The PCB was taken through the report as set out at pages 51 to 54.

Responding to a query, the Independent Advisor noted it was likely the valuation cycle would stay at a 3-year cycle, despite speculation the government would raise this to 4-years.

RESOLVED

That the Pensions Committee and Board approve an extension of the current contract with Mercer Ltd. for investment consultancy services as allowed under the contract for the period 1 April 2020 – 31 March 2021 in accordance with CSOs 3.03 and 10.02.1 at an estimated value of £95k.

324. INVESTMENT CONSULTANT STRATEGIC OBJECTIVES

The Head of Pensions introduced this report which sought the PCB to approve the strategic objectives for the Fund's appointed investment consultant, currently Mercer Ltd. The PCB were taken through the report prepared at pages 55 to 58.

The Chair noted that the strategic objectives had to be set by 10th December 2019 and if the PCB sought to make any amendments, delegated authority would have to be made to the Head of Pensions, in consultation with the Chair of the Pensions Committee and Board and Independent Advisor to the fund to agree those outside the meeting with Mercer.

(The PCB further discussed this item in the exempt session.)

Following discussion, the PCB agreed to the strategic objectives, as set out in the Confidential Appendix 1, with minor amendments.

RESOLVED

1. That the Pensions Committee and Board approve the strategic objectives for the fund's appointed Investment Consultant drafted in Confidential Appendix 1 to this report.

325. NEW ITEMS OF URGENT BUSINESS

N/A.

326. EXCLUSION OF THE PRESS AND PUBLIC

RESOLVED

That the press and public be excluded from the meeting for consideration of item 17 as it contains exempt information as defined in Section 100a of the Local Government Act 1972 (as amended by Section 12A of the Local Government Act 1985); para 3;

namely information relating to the financial or business affairs of any particular person (including the authority holding that information).

327. 2019 PENSION FUND VALUATION

As per the exempt minutes and item 317.

328. PENSION FUND QUARTERLY UPDATE

As per the exempt minutes and item 322.

329. INVESTMENT CONSULTANT STRATEGIC OBJECTIVES

As per the exempt minutes and item 324.

330. EXEMPT MINUTES

As per the exempt minutes.

RESOLVED

That the exempt minutes of the meeting held on the 19th November 2019 be approved as a correct record of the meeting.

CHAIR:

Signed by Chair

Date