



CITY OF WESTMINSTER

MINUTES

Superannuation Committee

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Superannuation Committee** held on **Monday 8th September, 2014**, Rooms 3 & 4 - 17th Floor, City Hall.

Members Present: Councillors Suhail Rahuja (Chairman), Antonia Cox, Ian Rowley and Patricia McAllister

1 MEMBERSHIP

1.1 No apologies for absence were received.

2 DECLARATIONS OF INTEREST

2.1 The Chairman made the following declaration:
'I am employed by Fund Managers who have amongst their clients Hermes. I am not involved in any element of the work which relates to the Westminster Fund and accordingly do not regard this as a prejudicial interest'.

3 MINUTES

3.1 The Minutes of the Superannuation Committee meeting held on 14 July 2014, which did not include exempt information, were agreed as a correct record and were signed by the Chairman.

4 PERFORMANCE AND MANAGEMENT OF THE COUNCIL'S PENSION FUND AND APPROVAL OF THE ANNUAL REPORT

4.1 Jonathan Hunt (Director of Corporate Finance & Investment) and Alistair Sutherland (Deloitte Investment UK) submitted a report which provided a summary of the Fund's investment performance over the three month period to 30 June 2014. Over the past 12 months, the Fund had outperformed its composite benchmark largely due to a strong performance from Majedie; while over the second quarter of 2014, it had underperformed its composite benchmark, largely as a result of weak performance from the active equity managers. The Fund had continued to comply with statutory requirements.

- 4.2 The Committee considered an additional Funding update report provided by the Fund Actuary, Barnett Waddingham, which indicated that the funding level had improved from 74% at the last triennial valuation at 31 March 2013, to 81% at 30 June 2014.
- 4.3 The Committee also received the draft Annual Report of the City of Westminster Superannuation Fund 2013-2014, which included details of risk management, investment policy and performance, scheme administration, and actuarial information. An amendment was tabled which set out comments that had been received from the City Council's auditors. During the year, the value of the Fund had risen by £91m following positive absolute investment returns; and the Fund's total investment return had outperformed the target return by 3%. The Committee had continued to monitor the Fund closely at every meeting, and had challenged the investment advisers as necessary to ensure the Fund's investments were being managed effectively. The Committee noted that the Annual Report needed to be finalised and made available by 1 December.
- 4.4 Members discussed the draft Annual Report, and asked to receive further information on scheduled and admitted bodies and their discount rates, and on cash flow. The Director of Corporate Finance & Investment agreed to submit a paper on the scheduled and admitted bodies to the next meeting of the Committee. Members also suggested that next year's Annual Report should include references to established good practice in the management of Westminster's Pension Fund, and to the Annual General Meeting.
- 4.5 The Director reported that officers had been monitoring the Pension Fund's bank account, and had forecast that there may soon be insufficient cash available in the Pension Fund bank account to meet the Fund's obligations. Members noted that officers would undertake a full cash flow review and forecasting exercise, and the Director confirmed that a paper setting out the results would also be submitted to the next meeting.
- 4.6 The Director commented that monitoring the Pension Fund's bank account had revealed that dividends from the Hermes Holding account had not been reinvested, which had led to a cash balance of £5M being accrued over a three year period that would now be reinvested.
- 4.7 Members noted that the Statement of Investment Principles (SIP) for Westminster's Fund had last been updated in 2012, and that a separate report on the SIP would also be submitted to the next meeting; together with the future programme of work planned by officers.
- 4.8 The Committee also discussed the implications and possible effect on the Pension Fund of Scotland voting for independence in the forthcoming referendum on 18 September.
- 4.9 **RESOLVED:**
1. That the report on the performance and management of Westminster's Pension Fund be noted;

2. That the actuary be asked to attend a meeting in the near future to discuss and explain discount rates;
3. That the draft Annual Report of the City of Westminster Superannuation Fund 2013-14 be endorsed, with final approval of the Annual Report to be delegated to the Director of Corporate Finance and Investment, in consultation with the Chairman of the Superannuation Committee; and
4. That it be noted that the future programme of work planned by officers would be reported at the next meeting of the Committee in November, and that in the interim, the decision to draw down funds to meet the Pension Fund's cash flow requirements would be delegated to the Director of Corporate Finance & Investment, in consultation with the Chairman of the Superannuation Committee.

5 STANDARD LIFE INVESTMENTS

- 5.1 The Committee received a presentation and funding update from Euan Baird (Investment Director) and Richard Marshall (Fund Manager), on the management of the Pension Fund's property investments by Standard Life. The presentation included details of valuations market trends, key performance drivers, acquisitions and sales.
- 5.2 Standard Life reported that they managed a well-diversified Property Fund, which was currently invested in a portfolio of 82 different property assets let to 41 different good quality tenants, with good underlying business which guaranteed income.
- 5.3 The Committee noted that capital values in the UK property market had increased during the second half of the past year, and that the valuation of Westminster's investment in the Standard Life Property Fund had increased in value from £43.8M in March 2014 to £45.6M at the end of August. Standard Life forecast a strong return on the UK commercial property market over the next three years, although growth was expected to slow in 2015.
- 5.4 The Committee discussed risk, and noted that while Travelodge Hotels Ltd had been listed as a high risk investment due to underlying trade, other parts of the market in food based inns such as Greene King were doing well and expanding.
- 5.5 The Committee also discussed the current uncertainty in Scottish markets which had arisen from the forthcoming referendum, and noted that £120M of Standard Life's property assets were currently in Scotland, which represented less than 10% of their property portfolio. Members noted that while there had so far been no impact on valuations of Scottish property, there was currently a moratorium on purchasing Scottish assets. Contingency planning for possible independence had also been taking place over the last two years.

- 5.6 The Committee noted that the value of the property portfolio was currently £1.5 Billion, and sought clarification on capacity and whether the Fund would be closed. Standard Life commented that the portfolio had provided good returns to investors over the past year, and was being kept under close review. While Standard Life were cautious not to dilute the quality of their portfolio, they remained aware of good value opportunities. Members noted that while Standard Life were not concerned over capacity at present, they would consider closing the Fund if the market changed.
- 5.7 **RESOLVED:** That the presentation and funding update from Standard Life Investments be noted.

6 PENSION COMMUNICATIONS AND ENGAGEMENT STRATEGY UPDATE

- 6.1 Carolyn Beech (Acting Director of Human Resources) presented a report which considered the communications and engagement strategy following the changes to the Local Government Pension Scheme (LGPS), which had come into effect in April 2014. The Committee noted that RB Kensington & Chelsea and LB Hammersmith & Fulham had deferred auto-enrolment until 2017, due to the additional administration and costs.
- 6.2 Since the introduction of auto enrolment in July 2013, membership of the LGPS had increased by 558 people, with 599 people having opted out of the scheme primarily due to financial constraints. Very few members of staff had joined the new 50/50 scheme, and the Committee agreed that more engagement activity was needed to highlight its benefits.
- 6.3 The Committee noted that the Pensions Administration contract with the LPFA had now ceased, and that the new contract with Surrey County Council had come into effect on 1 September. Members acknowledged that promotion of the new scheme had been reduced by the change of contract, and noted that Westminster was currently working with Surrey County Council to develop a programme for more engagement activity which would highlight its benefits and focus on new starters, who were more likely to opt out than existing employees.
- 6.4 The Acting Director of Human Resources agreed to present a further report at the next meeting of the Committee,
- 6.5 **RESOLVED:** That progress in the communications and engagement strategy following the changes to the Local Government Pension Scheme be noted.

7 UPDATE ON COLLECTIVE INVESTMENT VEHICLES, GOVERNANCE REGULATIONS AND PENSIONS BOARDS

- 7.1 The Committee received the final tri-borough responses to the Department for Communities & Local Government (DCLG) consultations on Collective Investment Vehicles and the balance of active and passive management; and on the draft Regulations for Scheme Governance which sought to implement the requirements of the Public Sector Pensions Act 2013.
- 7.2 One of the main provisions of the Pensions Act was for schemes which were subject to local administration, such as the Local Government Pension Scheme, to provide for the establishment of local Pension Boards, which were required to be set up by 1 April 2015. The Act required Pension Boards to be made up of an equal balance of employer and employee representatives, with a minimum of four members meeting four times a year. Before appointment, the administering authority needed to be satisfied that the representatives had “the relevant experience and capacity to perform their roles” and that they did not have a conflict of interest. The costs of local Pension Boards was to be regarded as administration costs charged to the Fund.
- 7.3 The Committee noted that Pension Boards would have no decision making powers or powers of direction, but would scrutinise regulatory activity and note things that could be improved or dealt with more effectively. Although only limited information had been available, the remit of Pension Boards was expected to be clarified by the final regulations and statutory guidance which were expected to be published in October 2014.
- 7.4 The consultation had focused on the practicalities of implementing the Pensions Act, and one of the key issues raised had been the possibility of joint Pension Boards. Members noted that the tri-borough response had argued that the final regulations should include an option for a tri-borough arrangement, which would allow for efficiencies.
- 7.5 A further update on progress in establishing Pension Boards would be given at the next meeting of the Committee in November, after publication of the final regulations and statutory guidance.
- 7.6 **RESOLVED:** That the responses to consultation made in respect of Collective Investment Vehicles, Governance Regulations and Pensions Boards be noted.

8 ANY OTHER BUSINESS WHICH THE CHAIRMAN CONSIDERS URGENT

- 8.1 No additional business was reported.

9 EXEMPT REPORTS UNDER THE LOCAL GOVERNMENT ACT 1972

- 9.1 **RESOLVED:** That under Section 100 (A)(4) and Part 1 of Schedule 12A to the Local Government Act 1972 (as amended), the public and press be excluded from the meeting for the following items of business because they involve the likely disclosure of exempt information on the grounds shown below and it is considered that, in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in

disclosing the information:

<u>Item Nos.</u>	<u>Grounds</u>	<u>Para. of Part 1 of Schedule 12A of the Act</u>
10 and 11	Information relating to financial or business affairs of any particular person (including the authority holding that information).	3

10 MINUTES (EXEMPT)

- 10.1 The minutes of the Superannuation Committee meeting held on 14 July 2014 which included exempt information were agreed as a correct record and were signed by the Chairman.

11 UPDATE ON THE APPOINTMENT OF MANAGERS

- 11.1 The Committee noted a confidential update on the appointment of equity managers.

The Meeting ended at 8.55 pm

CHAIRMAN: _____

DATE _____