CITY OF WESTMINSTER

MINUTES

Pension Fund Committee (Formerly Superannuation Committee)

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Pension Fund Committee (Formerly Superannuation Committee)** held on **Tuesday 22nd March, 2016**, Rooms 1A, 1B and 1C, 17th Floor, City Hall, 64 Victoria Street, London SW1E 6QP.

Members Present: Councillors Ian Rowley (Chairman), Antonia Cox, Richard Holloway and Patricia McAllister

Officers Present: Officers: Carolyn Beech (Director of Human Resources), George Bruce (Tri-Borough Director of Treasury and Pensions), Steven Mair (City Treasurer), Nikki Parsons (Pension Fund Officer) and Toby Howes (Senior Committee and Governance Officer).

Also Present: Kevin Humpherson (Deloitte), Marie Holmes (Pension Board Representative), Susan Manning (Pension Board Representative) and Christopher Smith (Pension Board Representative).

Apology for Absence: Councillor Suhail Rahuja

1 MEMBERSHIP

1.1 It was noted that Councillor Richard Holloway had replaced Councillor Suhail Rahuja. Councillor Ian Rowley was elected as Chairman in the absence of Councillor Rahuja.

2 DECLARATIONS OF INTEREST

2.1 No declarations were received.

3 MINUTES

3.1 **RESOLVED:**

That the Minutes of the meeting held on 16 November 2015 be signed by the Chairman as a correct record of proceedings.

4 MINUTES OF PENSION BOARD

4.1 The Committee noted that the Minutes of the last Pension Board meeting held on 18 January 2016 would be circulated separately.

5 ASSET POOLING AND THE LONDON COLLECTIVE INVESTMENT VEHICLE - UPDATE

5.1 George Bruce (Tri-Borough Director of Treasury and Pensions) presented the report and informed Members that the Government had published two documents on 25 November 2015, the first on its intention to require Local Government Pension Schemes (LGPS) to form pools of assets of approximately £25 billion, and the second a consultation on draft revised LGPS Management and Investment of Funds Regulations. An initial response from local authorities individually or collectively on pooling had been required by 19 February 2016, and a more detailed response by 15 July 2016. George Bruce drew Members' attention to the London Collective Investment Vehicle's (CIV) initial response on behalf of participating London authorities to the pooling proposals. He advised that the London CIV and the Council was working with fund managers in respect of cost structures which may take a few months to complete. Every effort would be made to ensure that the Council's assets were reflected in the pooling arrangements and a draft detailed response would be put to Members for the next Committee meeting.

5.2 Turning to the Government's draft revised LGPS Management and Investment of Funds Regulations, George Bruce advised that the Council would be required to have a new Investment Strategy by October 2016, and updates on this matter would be presented at the next two meetings of the Committee. The draft regulations gave the Secretary of State quite substantial powers of intervention if this was felt necessary, however there would be a process of dialogue with local authorities before it was decided whether to use these powers. The Government could also potentially intervene in any other investment related functions as well as pooling and further guidance was awaited on this matter.

5.3 In respect of the London CIV, George Bruce advised that assets in the Allianz diversified growth fund had been transferred to the CIV in December 2015. The planned transferring of Baillie Gifford global equity and diversified growth funds had been delayed whilst Stamp Duty issues were being resolved and it was anticipated that the transfer would take place shortly.

5.4 During Members' discussions, further details were sought as to when and why the Secretary of State would intervene with a local authority's investment functions and could this also include concerns about not investing in infrastructure. It was suggested that clearer guidance would be needed on when the Secretary of State could intervene and the steps that would be taken before this course of action was deemed necessary. The Chairman enquired what the expectations in undertaking pooling should be and what asset classes would be involved. He also asked whether there had been any dialogue with the London CIV on the possibility of pooling fixed income assets as there were potential benefits in doing so. The likelihood of whether the frequency of Committee meetings would increase in light of asset pooling and changes to LGPS investment fund regulations proposals was also raised.

5.5 In reply to the issues highlighted by Members, George Bruce advised that the Secretary of State could intervene, for example, if unhappy about the way the pooling was being undertaken or if it was felt that there was insufficient pooling. Potentially there could also be other reasons, such as lack of investment in particular asset classes such as infrastructure. George Bruce advised the July submission to the Government would quantify the benefits from pooling, including expected fee savings and performance improvements, which will assist the Committee when discussing the transfer of assets to the London CIV. He acknowledged that the London CIV had considerable work to complete within a short timescale, however consideration of the CIV's structure for all asset classes was underway, including fixed income assets. George Bruce envisaged that the Committee would continue to meet on a quarterly basis, although to date the Government had expressed satisfaction with the structure of the London CIV. It was possible that the Government's views on investment strategies may differ to the Council's and other local authorities. London boroughs had collaborated through the London CIV in responding to the pooling proposals and the Government's response was awaited.

5.6 The Committee requested an update on the Investment Strategy and further details on pooling intentions in respect of asset classes including fixed income, property and infrastructure at the next meeting.

5.7 **RESOLVED:**

That it be agreed to delegate to the City Treasurer, in consultation with the Chairman of the Pension Fund Committee, the decision to agree to the transition of Pension Fund assets to the London CIV where the Fund has a pre-existing relationship with the investment manager and where the transfer of such assets is financially advantageous to the Fund.

6 UNDERLYING RISKS IN ACCEPTING ADMITTED BODIES TO THE PENSION SCHEME

6.1 George Bruce introduced the report and advised that there were currently 30 employers participating in the Pension Scheme. The three types of organisations that may join LGPS were scheduled bodies, such as local councils, community admission bodies and transferee admission bodies. Each type of body that applied must be admitted to the pension scheme if they met the criteria. The risks to admitting new admission bodies included admitting an underfunded admitted body, leaving liabilities to the Fund, the on-going solvency of the admitted body to meet pension contributions and transferring staff with an inherited pension deficit.

6.2 George Bruce then highlighted the mitigating actions available to minimise these risks, including the administering authority's ability to require an admission body to enter into an indemnity or bond approved by the Fund or a guarantee from another organisation or the Secretary of State where either funds or controls the admissions body. Members were advised that the Funding Strategy Statement required all new admission bodies to have a bond or a guarantee from a suitably robust entity before they can be admitted. Other ways to mitigate the risks included ill-health insurance and using stronger actuarial assumptions in determining contribution rates and deficit recovery periods.

6.3 During Members' discussions, it was queried why staff from scheme employers may be admitted through TUPE arrangements. In respect of carers working for Sanctuary, it was queried whether they were admitted to the scheme as some had previously been Council employees and would the scheme be affected by those organisations that adopted the London Living Wage. A Member emphasised that the Admissions Policy should incorporate the lessons learnt in respect of an occasion a few years ago when Age Concern were unable to meet the financial commitments.

6.4 In reply to the issues raised by Members, George Bruce advised that TUPE arrangements for scheme members may apply in examples such as when a school participating in the scheme outsources its catering and the staff are transferred to the outsourced organisation in question. Carolyn Beech (Director of Human Resources) advised that all Council employers who were transferred to Sanctuary would remain in the Pension Scheme through TUPE arrangements, but any new employees joining Sanctuary would not be joining the Scheme.

6.5 In noting the possibility of costs falling upon the Fund as a result of the risks associated with admission bodies, the Chairman requested further information on the type of circumstances where this could occur and where the costs to the Fund would be significant at a future meeting. He also requested that there be a risk register for current and future admitted bodies identifying the degree of risk to the Pension Scheme.

6.6 **RESOLVED:**

That the risks and mitigation actions available be noted and that it be agreed that the City Treasurer preparing an Admissions Policy and risk monitoring arrangements be reported back to a subsequent meeting of the Committee.

7 FUND FINANCIAL MANAGEMENT

7.1 Nikki Parsons (Pension Fund Officer) presented the report and began by referring to the Risk Register, drawing Members' attention to a new risk (Risk 24) concerning BT being unable to provide an interface file in a format suitable for Surrey County Council to update service records. She confirmed that the Council was compliant with the Investment Regulations and no new investor class actions added were recommended to require further investigation. Carolyn Beech added that in respect of Risk 24, there had been a significant number of outstanding issues last month, however following close cooperation with BT and Surrey County Council, a large number had been resolved. She was confident that all issues would be resolved before the end of the financial year, with the most significant issues already resolved, whilst those remaining were mainly minor in nature. Carolyn Beech informed Members that there was to be a meeting the following week to ensure that the matter had been resolved.

7.2 Members sought an update in relation to Risk 19 concerning lump sum payments to scheme members and supplier payments not being made and Fund accounting not being possible. Members also enquired when the risk (Risk 11) concerning committee members having appropriate skills and knowledge to discharge their responsibilities was likely to be resolved.

7.3 In reply, Nikki Parsons advised that submission of one training self-assessment was awaited which would address Risk 11. In respect of Risk 19, that there had since been a thorough review, with lump sum payments now being made in a timely manner and the system had received extensive testing. George Bruce added that it was likely that the risk would shortly be moved to amber and all payments had gone through in time in the last six months.

7.4 Nikki Parsons then referred to cash flow monitoring and advised that additional income had recently been identified, leading to a revised forecast balance of £7.7m. In view of healthy cash flow situation, it was recommended that the monthly cash transfers from the Fund Managers be deferred until required.

7.5 Members commented on the number of employees joining the Pension Scheme and enquired if information could be provided on those leaving the scheme and how this would impact upon it.

7.6 In reply, Carolyn Beech advised that most employees were opting in, primarily because of auto-enrolment. She advised that information on the number of leavers and the impact this may have on the scheme could be provided, however in the majority of cases most leavers were replaced by staff who would join the scheme through auto-enrolment. Steven Mair (City Treasurer) added that the Council's position was not unique and all local authorities faced budget pressures that impacted on the ability to retain staff.

7.7 **RESOLVED:**

1. That the updated Risk Register for the Pension Fund be approved.

2. That the Fund's compliance with the limits specified in Schedule 1 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 be noted.

3. That the Class Actions update be updated.

4. That the cashflow position of the Fund be noted and that the proposed deferment of monthly cash transfers from the Fund Managers until May 2016 be agreed.

8 EXTERNAL AUDIT PLAN FOR CITY OF WESTMINSTER PENSION FUND 2015-16

8.1 Members had before them the external audit plan for the Pension Fund. Members enquired if this was the first time that an external audit plan had been produced. In reply, Steven Mair advised that the last external audit plan had been undertaken by KPMG and the outcome had been reported to the Audit and Performance Committee. However, future external audit plans would also be reported to this Committee. He added that to date the external audit had not identified any issues of concern and Members would be updated on progress at the next meeting.

8.2 **RESOLVED:**

That the contents of the report be noted.

9 PERFORMANCE OF THE COUNCIL'S PENSION FUND

9.1 Kevin Humpherson (Deloitte) presented the item and confirmed that although there had been a slight underperformance in the last quarter, overall performance remained above the year's target. He confirmed that no major issues had arisen in respect of the individual fund managers' performances.

9.2 In noting that Hermes had made two property purchases near Heathrow, a Member enquired whether these would be adversely affected if the proposal to introduce a third run way was turned down. The Chairman commented that the asset allocation of property remained at 10%, still short of the 15% target, although the 5% long lease target had been met. In noting that the London CIV was currently considering its property allocation, he asked when any action on this was expected.

9.3 In reply, Kevin Humpherson advised that Hermes saw their two property acquisitions as a diversifier and he considered that the outcome of the third runway proposal at Heathrow airport would not impact upon these assets. He advised that the London CIV would be providing more clarity in respect of its property asset allocation intentions.

9.4 The Chairman requested an update on the London CIV's property asset allocations at a future meeting.

9.5 **RESOLVED:**

That the content of the report, the performance report from Deloitte and the current actuarial assumptions and valuation be noted.

10 PENSION FUND BENCHMARKING COSTS

10.1 George Bruce presented the report that provided details of the response to the Scheme Advisory Board's (SAB) key performance indicator benchmarking exercise, investment performance benchmarking and a comparative review of the Fund's management costs. He advised that whilst the one year investment return was slightly below the one year benchmark, the three year annualised investment return was 1.3% above the three year annualised benchmark. George Bruce advised that management costs were higher than average, however accurate comparisons were difficult to make as the way the costs were calculated varied between the funds. It was anticipated that the SAB would try to standardise the way management costs were calculate over time to provide more consistency.

10.2 Members concurred that the overall positive comparison of the Fund with other funds should be highlighted and it was suggested that the Pension Fund Annual General Meeting would provide an appropriate opportunity to do this.

10.3 **RESOLVED:**

That the contents of the report be noted.

11 ANALYSIS OF THE 2014/15 PENSION ADMINISTRATION COSTS

11.1 Members had before them a report detailing Pension Administration costs for 2014/15. In response to Members' queries concerning payments to Heywoods, Carolyn Beech explained that these were one-off payments to take over the software licences required which would not be incurred again and so only administrative and management costs would be required from now on. It was noted that Heywoods had extensive experience of working with local authorities.

11.2 **RESOLVED:**

That the contents of the report be noted.

12 ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

12.1 In noting that it was the last Pension Fund Committee meeting for Carolyn Beech before she retires the Council, the Chairman on behalf of Members thanked her for the work and support she had given to the Committee.

13 MINUTES

13.1 **RESOLVED:**

That the confidential Minutes of the meeting held on 16 November 2015 be signed by the Chairman as a correct record of proceedings.

14 MINUTES OF PENSION BOARD

14.1 The Committee noted that the confidential Minutes of the last Pension Board meeting held on 18 January 2016 would be circulated separately.

The Meeting ended at 8.06 pm.

CHAIRMAN: ________________________ **DATE** ________________________