



CITY OF WESTMINSTER

MINUTES

Pension Fund Committee

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Pension Fund Committee** held on **Thursday 21st June, 2018**, Room 3.8, 3rd Floor, 5 Strand, London, WC2 5HR.

Members Present: Councillors Antonia Cox (Chairman), Melvyn Caplan, Patricia McAllister and Eoghain Murphy.

Officers Present: Phil Triggs (Tri-Borough Director of Treasury and Pensions), Matthew Hopson (Strategic Investment Manager – Tri-Borough Director of Treasury and Pensions), Damien Pantling (Pension Fund Manager), Lee Witham (Director of People Services), Sarah Hay (Pensions and Payroll Officer) and Toby Howes (Senior Committee and Governance Officer).

Also Present: Kevin Humpherson (Deloitte).

1 MEMBERSHIP

1.1 There were no changes to the membership.

2 DECLARATIONS

2.1 Councillor Antonia Cox declared that she is a non-Executive Director of the Student Loans Company, however she did not consider this a prejudicial interest, nor a conflict of interest.

3 MINUTES

3.1 RESOLVED:

That the Minutes of the meeting held on 8 March 2018 be signed by the Chairman as a correct record of proceedings.

4 PENSION ADMINISTRATION UPDATE

4.1 Lee Witham (Director of People Services) introduced the report and informed Members that there had been major areas of concern regarding performance in pension administration matters in 2016. Principally, this was due to issues relating to the payroll provider, BT, and this had also affected Surrey County

Council's (SCC) performance, who carried out the administration of the pension scheme on behalf of the City Council. The pension administration performance had also been raised as a major issue of concern at the Pensions Annual General Meeting in 2016.

- 4.2 Lee Witham advised that in order to address this issue, an Improvement Programme had been put in place and there had been significant progress in the last two years. Most of the key performance indicators (KPIs) were now rated green and there had been little concern raised about pension administration performance at the last Pensions Annual General Meeting on 12 April 2018. Lee Witham also advised that the position of Pension Manager at SCC was currently vacant, however it was anticipated that this position would be filled by October.
- 4.3 During Members' discussions, comments were sought as to the overall present situation with regard to pension administration performance. Members sought assurances that an issue identified in respect of the May payroll where BT had over deducted pensions contributions had now been resolved and what timescales were involved in confirming the existence of overseas based pensioners. In noting that Western Union were involved in obtaining information concerning overseas pensions, assurances were sought that the relevant data protection measures were in place. In respect of payroll responsibilities being transferred from BT to Hampshire County Council (HCC), Members asked what steps were being taken to ensure that the problems encountered in 2016, after BT had assumed payroll functions, would not be repeated. In respect of quality of data, it was queried whether staff were required to provide proof of date of birth upon appointment. Members also asked that they be kept informed about matters relating to the transfer of payroll functions to HCC and also in respect of the appointment of a new Pensions Manager at SCC.
- 4.4 The Chairman referred to a training session run by Barnett Waddingham that Members had attended where the importance of ensuring the quality of data had been highlighted, particularly because it could impact upon matters such as the triennial evaluation. Although Barnett Waddingham had stated that the quality of data for the Westminster Fund was sound, the Chairman asked if there were any plans for a data cleanse or other measures to ensure the quality of data was even better. The Chairman also sought further details as to the issues that made calculating pensions for school staff more complex.
- 4.5 In reply to the issues raised by Members, Lee Witham advised that the pension administration service was now stable and work had been undertaken to ensure that the KPIs used would record scheme members' experiences accurately. He confirmed that deducted pensions contributions identified in the May payroll had now been addressed. In respect of the handover to HCC for payroll services, Lee Witham stated that lessons had been learnt from when BT had assumed this role and the HCC system had been up and running for some time now and handled around 50,000 staff. Members heard that Oxfordshire County Council had recently joined under the HCC payroll system and things had started well. Lee Witham added that the advantage of going with HCC was that they had a system in place that

was proven, although it was inevitable that a few issues may arise during the course of a transition. The Committee noted that staff were required to provide proof of date of birth during the appointment process.

- 4.6 Sarah Hay (Senior Pensions and Payroll Adviser) advised that in respect of information on overseas based pensioners, an update could be provided at the next meeting. She advised that the issues relating to BT had more impact on the Fund than other matters. In respect of school staff, Sarah Hay advised that calculating pensions could be complicated by matters such as term times and changes to hours of employment.
- 4.7 Phil Triggs (Tri-Borough Director of Treasury and Pensions) advised that the City Council had a good track record in terms of pension fund data quality. The Chairman then commented that a data cleanse was probably not necessary.
- 4.8 The Chairman requested that the Committee be kept updated on transfer of payroll responsibilities to HCC, including continuing to receive the monthly pension updates so Members could monitor for any data quality issues.

5 NEW ADMITTED BODY TO THE PENSION FUND - REGULATOR FOR SOCIAL HOUSING

- 5.1 Sarah Hay (Pensions and Payroll Officer) presented the report and advised that the Homes and Community Agency (HCA) is currently an admitted body in the Westminster Pension Fund. A Government review has recommended that the body that makes agreements with landlords supplying homes to the social housing market should not regulate those same landlords, which the HCA currently undertook. As such, a Regulator for Social Housing (RSH) was to be created and staff currently carrying out regulatory functions for HCA would be TUPE transferred to the RSH. Sarah Hay advised that it was therefore recommended that the RSH become a member of the Westminster Pension Fund as an admitted body on a closed admission agreement, meaning that no new employees can be appointed to the Fund, as the HCA was also a member on this basis.
- 5.2 Members sought clarification as to whether the agreement would need the signature of the Secretary of State. Sarah Hay confirmed that this would be the case and that the Secretary of State would act as the guarantor for the RSH.
- 5.3 **RESOLVED:**
1. That it be agreed that the Regulator for Social Housing join the Westminster Pension Fund as an admitted body on a closed admission agreement basis provisionally on 1 October 2018.
 2. That it be agreed that a side agreement be made to provide the Fund maximum financial protection to cover all liabilities associated with the Regulator for Social Housing.

6 VOLUNTARY SCHEME PAYS

- 6.1 Sarah Hay presented the report on a 'Voluntary Scheme Pays arrangement' for 2018/19 onwards. Such an arrangement would address situations where members of staff on higher salaries could be subject to helpful intervention by Pensions Administration if annual or lifetime allowance limits were broken, allowing those staff to defer the additional tax liability to the time that they draw their pensions on retirement.
- 6.2 The Committee felt that, rather than apply the arrangement as overall general policy, cases should be considered by the Committee on a case-by-case basis.
- 6.3 **RESOLVED:**

That the Voluntary Scheme Pays arrangement be considered by the Committee on a case-by-case basis.

7 QUARTERLY PERFORMANCE REPORT

- 7.1 Kevin Humpherson (Deloitte) presented the report and advised that the equity mandates had underperformed over the first quarter of 2018, however overall the Fund had outperformed its benchmark by 0.6% as the equities underperformance had been offset by the performance of Baillie Gifford, Hermes and Aberdeen Standard. Over the year, the Fund had outperformed the benchmark by 1.1%, with Baillie Gifford being the highest performer, offsetting the underperformance from Majedie. Kevin Humpherson advised that Majedie's performance had been adversely affected by its gas and mining stocks. In respect of fund manager ratings, Kevin Humpherson informed Members that Richard Marshall was leaving Aberdeen Standard Investments and consideration needed to be given as to whether an appropriate handover will take place. Members also heard that the transfer of the Insight Mandate had been completed.
- 7.2 During discussions, Members asked whether the optimal level of investment had been made to the London Collective Investment Vehicle (CIV). The Chairman sought views as to whether it was desirable to transfer fixed income assets to the CIV and what mechanisms should take place in respect of deciding the transfer of future assets to the CIV. She queried why there were no figures in the report for Markets in Financial Instruments Directive II (MiFID II) Members requested further details in respect of credit assets in future reports. Members expressed an interest in receiving information on environmental, social and governance (ESG) factors with regard to assets.
- 7.3 In reply to questions from Members, Kevin Humpherson advised that Deloitte continued to monitor the situation regarding funds to the CIV which itself was undergoing changes. Many of the funds transferred to the CIV were like for like and involved continuing with the same fund manager. Kevin Humpherson acknowledged the request for further details in respect of credit assets in future reports and added that further information on asset classes will also be included in the strategy report referred to by Phil Triggs in paragraph 7.4

below. Kevin Humpherson confirmed that figures for Quarter 1 and Quarter 2 in respect of MiFID II costs would be included in the next report. He also advised that all fund managers produced an annual report on ESG assets and he agreed to put together a report summarising this at a future meeting following a request from the Chairman.

7.4 Phil Triggs advised that the proportion of the City Council's assets transferred to the CIV was high compared to other CIV members. The Committee agreed to his suggestion that a strategy report setting out investment options with the CIV be presented at a future meeting. He added that the strategy report could also provide information in respect of ESG assets.

7.5 **RESOLVED:**

That the performance of the investments and the funding position be noted.

8 FUND FINANCIAL MANAGEMENT

8.1 The Committee had before them the Fund Financial Report that included the Risk Register. The Chairman commented that risk 20 in the Risk Register relating to loss of funds through fraud or misappropriation seemed quite high and she sought a further explanation of this. She also sought further details in respect of pension contribution rates. Members sought information on how audit reports would specifically affect the Pension Fund and it was agreed that this be provided at a future meeting.

8.2 In reply to Members' comments, Phil Triggs advised that in respect of risk 20 on the Risk Register, in the reality this risk was not as high as it might appear and he agreed to amend the Risk Register so that in future it be split into two parts, with one part showing the potential risk to the Fund and the second part showing the actual risk when all the mitigating actions were taken into account. In respect of pension contribution rates, these were due to be reviewed following the completion of the 2019 triennial evaluation by the City Council's actuary. Matthew Hopson (Strategic Investment Manager, Tri-Borough Treasury and Pensions) advised that the Fund was now 92.2% funded.

8.3 **RESOLVED:**

1. That the Risk Register for the Pension Fund be noted.
2. That the cash flow position and three year forecast be noted.
3. That the Forward Plan and draft Forward Plan for 2019-2020 be noted.
4. That the Pension Fund costs for 2017-2018 and the preceding two years be noted.

9 FIXED INCOME MANAGER SELECTION

9.1 The Committee had before them a report on progress in the transition of funds

to Insight Investment and noted that the process had now been completed. The Chairman welcomed the lower than anticipated transition costs involved.

9.2 RESOLVED:

That the progress and conclusion of the Insight Investment Management transition be noted.

10 DRAFT PENSION FUND ANNUAL REPORT AND STATEMENT OF ACCOUNTS 2017-18

10.1 Phil Triggs presented the report and confirmed that the Statement of Accounts had been approved by the Audit and Performance Committee on 23 April 2018. Members welcomed both the speed to which the Statement of Accounts had been submitted and to its accuracy.

10.2 RESOLVED:

1. That the Pension Fund Annual Report 2017-2018 be approved.
2. That the Pension Fund Accounts for 2017-2018 be noted.

11 LONDON COLLECTIVE INVESTMENT VEHICLE UPDATE

11.1 Phil Triggs presented the report and advised that the London CIV had approved a new governance structure and was in the process of implementing it. This included the creation of a Shareholders Committee reporting to the CIV's Board and the appointment of two non-executive directors to the Board by London Local Authorities. The new governance arrangements reflected the wish for a more streamlined structure as the CIV had originally faced the challenge of seeking agreement from all 32 members. Phil Triggs advised that the CIV's annual general meeting was due to take place on 12 July and further information of what would be discussed at the meeting was due to be circulated shortly.

11.2 The Chairman asked if there was any information on what eight London boroughs were likely to be represented on the CIV's Board and she added that the City Council should be included, considering it was one of the earliest members to join the Board and had transferred a higher proportion of assets to the CIV's Fund compared to most other Members. She also asked if it was known who the CIV's treasurers would be. In respect of the reference in the report to City of London's request that the CIV's shareholders assume an equal responsibility of the liability guarantee as CIV staff were part of the City of London's pension scheme, the Chairman asked if this was due to the size of the pension liability. She also asked whether the City Council should participate in the CIV's asset class and asset strategy consultation.

11.3 Members asked if there was any progress in the appointment of the vacant Chief Investment Officer at the CIV and what would happen in the event that the City Council was not satisfied with the eight London boroughs appointed to the CIV's Board.

11.4 In answer to questions from Members, Phil Triggs advised that he would provide further information on London borough appointments to the CIV's Board and the CIV's London Treasurers as soon as he is informed, adding that as a member of the Treasury and Pensions Officers Board he would receive notification of such matters. In respect of CIV staff in the City of London's pension scheme, Phil Triggs advised that the liability was significant and the current arrangements were open ended in nature and therefore there was a need to firm up the liability guarantee. The Committee noted that once the investment structure was agreed, a new Chief Investment Officer for the CIV would be appointed. Phil Triggs concurred that it was imperative that the City Council had representation on the CIV's Board and the Chairman and himself were impressing this to the CIV. Phil Triggs also advised that the City Council was not intending to participate in the CIV's asset class and asset strategy consultation as the City Council preferred to use its own advisers. In response to this, the Chairman commented that she therefore did not feel that it was necessary to be involved in the CIV's consultation.

11.5 RESOLVED:

That the update on the London CIV be noted.

12 ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

12.1 Phil Triggs advised that his team would be in contact with Members in respect of training and noted the Committee's interest in receiving training on fixed income assets and on strategy documents.

13 EXCLUSION OF PRESS AND PUBLIC

13.1 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 item of business because they involve the likely disclosure of exempt information on the grounds shown below and it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

14 LONGVIEW EQUITY MANDATE

14.1 The Committee considered a confidential report on the Longview Equity Mandate and agreed to the recommendation in the report.

The Meeting ended at 8.51 pm.

CHAIRMAN: _____

DATE _____