



CITY OF WESTMINSTER

MINUTES

Pension Fund Committee

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Pension Fund Committee** held on **Tuesday 21st March, 2017**, Rooms 3 and 4, 17th Floor, Westminster City Hall, 64 Victoria Street, London SW1E 6QP.

Members Present: Councillors Suhail Rahuja (Chairman), Peter Cuthbertson, Patricia McAllister and Ian Rowley.

Officers Present: Peter Carpenter (Interim Tri-Borough Director of Treasury and Pensions), Nikki Parsons (Pension Fund Officer), Lee Witham (Director of People Services), Kim Edwards (Senior Pensions and Payroll Adviser) and Toby Howes (Senior Committee and Governance Officer).

Others Present: Kevin Humpherson (Deloitte), Marie Holmes (Employer Representative, Pension Board), Dr Norman Perry (Scheme Member Representative, Pension Board) and Christopher Smith (Scheme Member Representative, Pension Board).

1 MEMBERSHIP

1.1 There were no changes to the membership.

2 DECLARATIONS

2.1 Councillor Suhail Rahuja declared that he was employed by fund managers who have amongst their clients Hermes. However, he was not involved in any element of the work which relates to the Westminster Pension Fund and accordingly he did not regard this as a prejudicial interest.

2.2 Councillor Ian Rowley declared that he held investments in Majedie and an Investment Trust with Baillie Gifford that he had held before he had become a Member of the Committee, however he did not regard this as a prejudicial interest.

3 MINUTES

3.1 That the Minutes of the meeting held on 15 November 2016 be signed by the Chairman as a correct record of proceedings.

4 MINUTES OF PENSION BOARD

- 4.1 It was noted that the Minutes of the last Pension Board meeting held on 6 March 2017 would be circulated separately.

5 FORWARD PLAN AND ALLOCATION OF PENSION FUND WORK

- 5.1 Peter Carpenter (Interim Tri-Borough Director of Treasury and Pensions) introduced the report that had been produced as a result of discussions at the 20 September meeting where further clarification of the roles of the Committee and the Pension Board had been requested. He circulated the Pension Board's Forward Plan for the remainder of the municipal year 2016-2017 and for 2017-2018. Peter Carpenter then invited comments from Members of the Committee and the Board.
- 5.2 The Chairman commented that there was currently some overlap of work between the Committee and the Board and consideration needed to be given as to how to allocate the work between these two accordingly and he sought views of Board Members present. Dr Norman Perry (Scheme Member Representative, Pension Board) remarked that its role was to assist the administering authority of the Fund, which included the Committee, and also to carry out a scrutiny function of activities being undertaken. To date, the Board had shadowed the work of the Committee more than it had partaken of any scrutiny of the Fund, however now that the Fund's Investment Strategy Statement and the Funding Strategy Statement were about to be approved, these were areas that the Board could scrutinise the Fund's compliance of. Dr Norman Perry stated that the Board had undertaken some scrutiny of the Pension Scheme's administrative arrangements and this was an area it could also continue to focus on. He also suggested that consideration could be given to reducing the frequency of the Board's meetings to three per municipal year and having an annual joint Committee and Board meeting.
- 5.3 The Committee Chairman suggested that the Board could both play a role in scrutinising the Fund and the scheme's compliance and in also focusing on specific areas, such as administrative arrangements. He added that a joint meeting between the Committee and Board could also take place in future.
- 5.4 A Committee Member acknowledged that the administration of the pension scheme was a crucial area, particularly in light of issues relating to BT and he welcomed the Board focusing on this area and scrutinising administration performance. He suggested that the Board could also provide feedback to the Committee on the views and experiences of the pension scheme members. The Chairman concurred with this view and acknowledged that scheme members and pensioners would have a very different perspective of the Fund to Members and officers.
- 5.5 The Chairman requested that he meet with Dr Norman Perry and Peter Carpenter to discuss further scoping of the allocation of work between the Committee and the Board before the next Board meeting on 9 May.

5.6 **RESOLVED:**

That the Committee's Forward Plan of Work for 2017-2018 be agreed, incorporating reallocation of work areas following discussions with the Pension Board.

6 FINAL ACTUARIAL VALUATION REPORT AND FUNDING STRATEGY STATEMENT

- 6.1 Peter Carpenter presented the report and advised that the actuarial valuation report set out the final position of the Fund. He advised that the Fund overall was 80% funded as of March 2016 compared to the previous valuation of 74% in 2013 and it was anticipated that this would rise to around 84% in the next three years. The increase in funding levels also meant that the overall deficit had been reduced from £297m to £264m. Members noted the comparisons between the funds to be published by the Government Actuary Department, which used a discount rate of 6.2%, compared to 5.1% used by the Fund's actuary, Barnett Waddingham. Peter Carpenter advised that the number of pension scheme members had increased as more admitted bodies and scheduled bodies had joined the Fund, and also because of members being admitted through auto enrolment that had taken place over the last three years.
- 6.2 Peter Carpenter referred to the contribution rates for each organisation in the Fund as set out in the report and it was noted that the Council was presently 70% funded, however through a combination of three £10m cash injections and increasing contributions in the next three years, it was expected that the funding level would increase to 75%. This would also help reduce the anticipated time taken to repay the deficit from 25 years to 19 years. Members noted that the Fund was unusual in that the Housing Communities Agency, which was fully funded accounted for approximately 25% of all scheme members, was atypically large for an admitted body.
- 6.3 During Members' discussions, it was queried whether a subsidiary company that was to be set up under CityWest Homes would join the Fund. The Chairman sought a further explanation of the graph illustrating changes to deficit levels for the valuation between 2014 and 2017 and also the reasons why deaths before retirement was still at the same level, even though life expectancy was increasing. He commented that the contributions for some admitted bodies seemed quite high and he asked why this was the case. The Chairman also sought further clarification that an increase of the funding level to 75% for the Council's Fund could be achieved in three years. Members also asked what the implications would be if the London Borough of Hammersmith (LBHF) was to withdraw from tri-borough arrangements in respect of the Pensions and Treasury Service.
- 6.4 In reply to the issues raised, Peter Carpenter advised that factors affecting the valuation included the returns made on existing assets, the 1% reduction in the discount rate since the last valuation and because scheme members were living longer. In respect of deaths before retirement remaining the same despite longer life expectancies, Peter Carpenter stated that it was likely that

this was due to a statistical figure being taken over a longer period of time, although he would check to confirm whether this was the main reason. Members noted that the graph on page 28 of the report that explained the differences between the assumptions used in 2013 valuation and those in the 2016 valuation.

- 6.5 With regard to admitted bodies contributions, Peter Carpenter advised that some contained a relatively small number of pension scheme members, so leavers or joiners would have a larger impact on contributions. The anticipated increase in funding levels to the City Council's Fund to 75% in three years would be achieved through increased contributions, whilst the Investment Strategy Statement would also consider use of other City Council resources to reduce the deficit more quickly as this would save the City Council money in the long term by reducing interest rate costs.
- 6.6 Peter Carpenter stated that if LBHF were to withdraw from the tri-borough Pensions and Treasury Service, this could affect resilience, particularly as this team was small and a staffing restructure may need to be considered if this occurred.

6.7 **RESOLVED:**

That the Actuarial Report for 2016 which summarises the process that has taken place and the final contribution rates for future and past service contributions for Westminster City Council and all Admitted and Scheduled Bodies be noted and agreed.

7 **CHANGES TO INVESTMENT REGULATIONS**

- 7.1 Peter Carpenter presented the report that sought approval of the Investment Strategy Statement (ISS) and the Funding Strategy Statement (FSS). Members noted that the ISS set out the remit of the Committee, as well as the City Council, as the Fund's administering authority, its approach to pooling in respect of the London Collective Investment Vehicle (CIV). Peter Carpenter advised that around 53% of the Fund's assets would be transferred to the CIV by the end of June, and as the Committee had agreed to the CIV negotiated rate for LGIM, this would take the overall percentage of assets under the CIV to 76%. As the proportion of assets under the CIV grew, governance issues including voting rights increasingly needed to be addressed.
- 7.2 Peter Carpenter advised that there had been two minor changes to the FSS since it had been presented to the Committee at the 15 November 2016 meeting. The first involved changes to section 7.2 of the report relating to the monitoring arrangements for assessing the financial health of employers, and the second was a correction to Section 12 of the report referring to the new ISS and not the earlier Statement of Investment Principles.
- 7.3 During discussions by the Committee, a Member referred to paragraph 1.4 in the ISS and suggested that the advice of the Investment Consultant was not always sound. It was agreed that the wording for paragraph 1.4 be reviewed for the next meeting. The Chairman commented that the ISS does not consult

with interested parties and it was more accurate to state that the ISS informs interested parties and it was agreed that paragraph 6.9 of the ISS be amended accordingly to reflect this. Members also sought clarification as to whether funds could invest in more than one CIV and it was commented that this would be desirable if it was permissible as it would help reduce costs further.

7.4 In reply to questions raised by Members, Peter Carpenter advised that it had been confirmed at the first London CIV annual conference on 1 March that investing in more than one CIV was not permissible at the moment, however the Minister for Local Government will consider this matter further. Peter Carpenter informed Members that the City Council was now receiving some reports from the London CIV in respect of the transfer of Majedie assets, however greater clarity and transparency was needed. However, he felt that the London CIV currently lacked the capacity to attend, for example, all of the Pension Fund Committee meetings held by the participating London boroughs, however there were staff undertaking monitoring duties. Members noted that Nikki Parsons (Pension Fund Officer) was a member of a working group looking at London CIV governance issues.

7.5 The Chairman requested that Peter Carpenter write to the Minister for Local Government on behalf of Councillor Patricia McAllister and himself to ask for confirmation on whether administering authorities would be able to choose to invest in more than one CIV at some point in the future and when was a final decision likely to be made on this matter. The Committee agreed the ISS and the FSS, subject to the comments made above.

7.6 **RESOLVED:**

1. That the new Investment Strategy Statement required by changes of legislation to be implemented as of 1 April 2017 be approved, subject to the comments made above.
2. That the Funding Strategy Statement required by changes of legislation to be implemented as of 1 April 2017 and which was approved in draft form by the Committee on 15 November 2016, be approved.

8 PENSION ADMINISTRATION UPDATE

8.1 Lee Witham (Director of People Services) presented this item and began by stating that BT had declined the invitation to the meeting on the grounds that they were in commercial negotiations with the City Council. He advised that officers had met with BT on a twice weekly basis to address performance concerns, however this had currently ceased whilst commercial negotiations were underway. However, every effort continued to be made to resolve issues with BT, along with the help of Jason Bailey (Pension Services Manager, Surrey County Council).

8.2 Lee Witham then turned to the revised key performance indicators (KPIs) and stated that there were now more KPIs for a number of additional measures. Each KPI also included the number of cases involved to help put each in

perspective. Members noted that Surrey County Council Pension Services Team had created the new set of KPIs and the performance was monitored by the City Council.

- 8.3 Jason Bailey then addressed the Committee and acknowledged that some targets were still not being met. In order to address this, some changes at management level were being made, including the appointment of two team leaders, whilst an operational manager would be in post by April. Jason Bailey anticipated that the changes would lead to improvements in a number of areas, with many rated 'red' turning to 'green' as the benefits of the changes started to show.
- 8.4 Christopher Smith (Scheme Member Representative, Pension Board) was then invited to address the Committee to inform them of some of the experiences he had been told of by pension scheme members. Christopher Smith began by welcoming the new set of KPIs, particularly as they included the number of cases involved. However, he felt that some improvements to the reporting could still be made, such as the number of death benefits notified target showing 100%, even though none had been made during that period.
- 8.5 Christopher Smith advised Members that he was not satisfied with the experiences of scheme members being reported to him. One member had not received their annual benefit statements for 4 years, and when they finally had received one, it had incorrectly stated that no contributions had been paid. Christopher Smith emphasised that one of the most important issues to address was to ensure pension payments were made in time. He acknowledged that performance had improved since the issues raised at the last Pensions Annual General Meeting on 21 September 2016 and People Services had worked very hard to address this. However, he could not be sure that the 250 annual benefit statements that had been outstanding were now all resolved. He also felt that there were a number of other cases that remained unresolved, involving a number of different issues and it was possible that some scheme members were no longer reporting their problems as they had little faith that they could be resolved. In reply to a query from Members, Christopher Smith suggested that there were possibly around 30 cases that remained unresolved.
- 8.6 The Chairman stated that cases such as the annual benefit statement that had not been provided for four years were not reported within the KPI data, along with other BT related cases as performance could not be monitored where data was inaccurate or missing. Members remarked that it was important that the experiences of scheme members were reported more regularly and that this was an area the Pension Board could focus on. Members sought assurances that BT had invested sufficiently in staff to address the problems being experienced.
- 8.7 Dr Norman Perry asked whether the Housing Communities Agency, another large organisation within the pension scheme, had encountered problems similar to those of the City Council. Marie Holmes (Employer Side Representative, Pension Board) commented that a number of admitted bodies

in the scheme did not use BT and she asked that information be provided in respect of their pension administration performance too. She added that she also received details of cases where scheme members had experienced problems.

- 8.8 In reply to the issues raised, Lee Witham stated that People Services also received details of difficulties being experienced by scheme members. He advised that the 250 outstanding annual benefit statements related to staff that had been absent. The BT file containing this data had been inaccurate and officers had requested that BT bring in additional resources to address this and a deadline of 10 February had been set to provide a corrected file. The file submitted had led to an improvement in the quality of data from 30% to 90%, however Lee Witham acknowledged that this was still not good enough. However, he felt more assured that BT now knew how to resolve issues. Members noted that BT had been requested to provide an updated file to Surrey County Council within two weeks, who would then need a further two weeks to send out the outstanding annual benefit statements.
- 8.9 Lee Witham stated that a root cause analysis of the issues being experienced in relation to BT had been undertaken. He felt that BT had now invested sufficiently in staff, however they needed to work better in order to improve performance. With regard to cases such as the annual benefit statement case highlighted, he would discuss with Jason Bailey and Christopher Smith how such cases could be reported in the KPIs.
- 8.10 Jason Bailey stated that he was not aware of any pension administration issues in respect of the Housing Communities Agency, who did not use BT as their payroll provider. However, he advised that there were instances of other payroll providers for organisations in the pension scheme who also did not always provide accurate data and it was acknowledged that both the Committee and the Board needed to be made aware of this.
- 8.11 The Chairman expressed concern that problems persisted, despite efforts made to address them. He requested that future reports reflect the performance of the City Council, Surrey County Council, BT and admitted bodies payroll providers. Members expressed concern that problems remained, despite efforts made to address these. The Chairman also requested that he meet with Christopher Smith, Lee Witham, Jason Bailey and other Members to discuss this matter further, looking into each case if necessary. He further added that if progress was unsatisfactory, then a report would be required detailing each case at the next meeting.

9 ASSET POOLING AND LONDON COLLECTIVE INVESTMENT VEHICLE UPDATE

- 9.1 Peter Carpenter presented the report and advised that the Majedie assets would transfer to the London CIV on 18 May, whilst it was also proposed to transfer the Longview assets to the CIV, and if this was approved by Committee, this would be completed sometime in June. In respect of the Fixed Income Mandate with Insight, this was due to expire at the end of 2017. Peter Carpenter suggested that a session be arranged with Members to

discuss potential options for the Fixed Income Mandate, with representatives from the London CIV in attendance to advise accordingly.

9.2 The Chairman requested that the meeting to discuss the Fixed Income Mandate take place on a Friday in April or May and that the views of Deloitte on this matter should also be sought. With regard to London CIV attendance at the meeting, he suggested that Julian Pendock (Chief Investment Officer, London CIV) be one of the representatives invited. The Chairman requested that Peter Carpenter discuss with other boroughs if they similarly needed to make a decision quickly in respect to fixed income mandates to see if they would consider acting with the City Council on this matter.

9.3 The Committee agreed to the transfer of the Longview assets to the London CIV.

9.4 **RESOLVED:**

1. That the process being undertaken to transfer the Majedie mandate to the London CIV be noted.
2. That the transfer the Longview mandate to the London CIV be agreed in principle, in order for the more detailed work to be undertaken.
3. That the London CIV pipeline for new Investment Vehicles be noted.

10 FEEDBACK FROM ANNUAL FUND MANAGER MONITORING DAY

10.1 Peter Carpenter introduced the report and confirmed that Longview had reduced their management fees since the fund manager monitoring day had taken place. He agreed to provide the Chairman with the details of the reduced fees.

10.2 **RESOLVED:**

That the contents of the report be noted.

11 FUND FINANCIAL MANAGEMENT

11.1 Nikki Parsons (Pension Fund Officer) presented the report and advised that the Risk Register had been revised, following agreement at the 21 June 2016 meeting that a more quantitative approach be taken and that the Risk Register be more relevant to the Fund. It was proposed that the impact scores be broken down further into impact on cost or budget and impact on scheme members. Nikki Parsons drew Members' attention to the proposed thresholds for the impact description, impact on cost/budget and impact on members as set out in the table in section 3.4 of the report. She felt that the changes to the Risk Register would more accurately reflect the impact both on pension scheme members and on the Fund's budget.

11.2 Turning to cashflow, Nikki Parsons referred Members to the cashflow forecast to reflect the actual position at the end of December 2016 as set out in

appendix 3 of the report. She advised that from March, additional employer costs are to be made from the Council to cover early retirement and ill-health strain costs. The level of expenses over the next three years would reduce significantly as fund managers transferring to the London CIV will no longer be paid by invoice, with fees being deducted at source instead. The Fund will also opt to receive cash distributions from mandates as they transferred to the CIV.

11.3 The Chairman welcomed the changes to the Risk Register which he felt had been significantly improved and would assist the Committee in focusing on the most important areas.

11.4 **RESOLVED:**

1. That the updated Risk Register for the Pension Fund be approved.
2. That the cashflow position of the Fund be noted.

12 **QUARTERLY PERFORMANCE REPORT**

12.1 Kevin Humpherson (Deloitte) provided Members with an update on the quarterly performance of the Fund. He began by advising that there were no concerns in respect of the individual fund managers, whilst the recent merger between Standard Life and Aberdeen Asset Management was not likely to have any immediate impact upon the long lease property assets held by Standard Life. Kevin Humpherson advised that both Majedie and Standard Life had performed strongly and were considerably above the benchmark for the last quarter, whilst they also continued to perform above the in-year benchmark. Hermes had also performed above the benchmark for the last quarter and remained above the in-year benchmark. Baillie Gifford had underperformed during the last quarter, as had Longview, although this was partly attributable to stock specific issues and Longview were still above the in-year benchmark. Kevin Humpherson suggested that the present benchmarks for Standard Life in respect of long lease property were incorrect and he suggested that a Peer Group Comparator could be undertaken in respect of this.

12.2 Members enquired whether there were any factors that may result in affecting the long lease property fund in respect of the merger between Standard Life and Aberdeen Asset Management. In reply, Kevin Humpherson advised that if the fund manager for the long lease property fund was to leave, or the fund started pursuing asset growth strategies, then this may give cause for the City Council to consider this as an exit trigger.

12.3 The Committee welcomed a Peer Group Comparator being undertaken in respect of the Standard Life long lease property benchmarks.

12.4 **RESOLVED:**

That the contents of the paper and the performance report from Deloitte be noted.

13 ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

13.1 There was no additional business for the Committee to consider.

14 MINUTES

14.1 RESOLVED:

That the Minutes of the meeting held on 15 November 2016 be signed by the Chairman as a correct record of proceedings.

The Meeting ended at 8.41 pm.

CHAIRMAN: _____

DATE _____