Pension Board
Minutes of the meeting held on Thursday 9 February 2017 in Room F10, the Town Hall, Katharine Street, Croydon, CR0 1NX

DRAFT

Present: Mr Michael Ellsmore (Chair);

Employer Representatives:
Councillor Humayun Kabir
Mr Richard Elliott
Mr Jolyon Roberts

Employee Representatives:
Mr David Whickman
Ms Nana Jackson-Ampaw
Mrs Teresa Fritz

Reserve Members:
Councillor Maggie Mansell

Also present: Nigel Cook, Head of Pensions and Treasury; Freda Townsend, Governance And Compliance Manager; Fahar Rehman, Governance And Compliance Officer; Dave Simson, Pensions Admin Manager; Richard Simpson (Executive Director Resources and Section 151 Officer)

Apologies: Apologies were received from Nana Jackson-Ampaw and Jolyon Roberts.

A1 Minutes

The Board **RESOLVED** to approve the Part A minutes of the last Pension Board held on Thursday 1 December 2017 as a correct record of the meeting.

A2 Disclosure of Interest

There were none.

A3 Urgent Business (if any)

There was no urgent business.

A4 **Exempt Items**

The allocation of the agenda between Part A and Part B was agreed.

A5 **Funding Strategy Statement**

The Head of Pensions and Treasury introduced the item and stated that the strategy represented the final stage of the evaluation process and consultation with key stakeholders had been concluded. No formal responses had been received from the consultation and therefore the draft version attached had no substantial changes from the version that had been considered by Pension Committee.

There had been one-to-one surgeries with 14 scheme employers that had discussed their individual actuary figures. Some of the non-academy employers expressed concern with their figures but payment options had been discussed to ensure it was affordable going forward.
The Executive Director of Resources added that whilst no formal responses had been received from the consultation, officers and representatives of Hymans Robertson had met with many scheme members through the Employers' Forum. Most of this engagement was centred on individual scheme members' results and figures, with ongoing discussions continuing with some employers. Any bespoke arrangements resulting from this discussions would be added to the final draft of the strategy for the Pension Committee submission.

In response to questions from the Board, the following was stated:

- The dispute with academies over the actuarial valuation had now been resolved with all but one academy group, the Oasis trust, which had six schools in the scheme. The disagreements over the lump sum contributions had not been resolved with Oasis and therefore the legal avenue was still being pursued to recover the sums owed which amounted to approximately £450,000.
- The Department for Communities and Local Government have drafted a position statement on the issue of academies and actuarial valuations and Croydon had been asked to review and comment on it.
- The legal costs budget for the recovery action against the academy was £100,000 and officers expected to recover £60,000 if the case was won. Many local authorities were looking to the outcome of the case, as was the Pensions Regulator, as it would provide some much needed clarity on the issue.

The Chair welcomed the strategy's flexible approach to deficit recovery from academies and the consideration of scheme employers from a sustainability position. The Board also considered that it would be beneficial to invite the Pensions Regulator to attend the next Board meeting for a training session.

The Board **NOTED** the contents of the report and the draft funding strategy statement attached.

A6 **Developments to the Regulatory Framework for the Local Government Pension Scheme**

The Head of Pensions and Treasury introduced the item by highlighting the key changes pertinent to the Board:

- The new investment strategy, which would be submitted to the next Board meeting and overlapped with the old strategy document.
- "Back-stop" powers for the Secretary of State to intervene where funds were failing.
- Exit payment capping proposals, that would affect middle to higher management staff that opt for early retirement.
- An EU Directive will require the Financial Conduct Authority (FCA) to ensure that all fund managers categorise their investors. The current proposals would categorise the Fund as a retail investor, with serious ramifications for the Fund. The Local Government Association (LGA) had recently met with the Treasury over this issue, and it appeared that central government were now becoming more aware of the significance of the impact the proposals would have on local authorities' funds.

The Board discussed the implications of the FCA categorisation of the Fund. It was noted that the changes were there for consumer protection purposes but the LGPS was an example of good governance and the impact would be very detrimental to the ability of the Fund to invest effectively.
In response to questions from the Board the following was stated:

- The categorisation process had a three limb test and while the Fund was large enough to move beyond the retail category, it failed on the other two limbs – transactions and staffing. Asset managers undertook the Fund's transactions and so the Fund itself did not undertake enough transactions per quarter to be considered higher than a retail investor. The staffing threshold required staffing conditions that included employees having experience working in the City within a given asset class for a set number of years.
- If the proposals as they stood were approved, the worst case

scenario for the fund would be a sale of almost a third of assets currently invested in, with a corresponding loss in returns. It would create a situation where Council Tax would be required to meet the losses. However it was exceptionally unlikely that the FCA would allow for such a situation to occur through the regulations.

The Chair noted that the FCA were open to consultation on the proposals, and were due to meet the pools and the LGA on the matter. More awareness was being drawn to the attention of the FCA of the unintended consequences of the proposals as they currently stood.

The Board **NOTED** the contents of the report.

A7 **Currency Hedging**

The Head of Pensions and Treasury introduced the item and stated that Brexit had seen the value of sterling plummet but a strong performance for companies listed on the London stock exchange. It was predicted that the current strong performance on the stock exchange would eventually soon plateau, and permission had been secured potentially to hedge half of the Fund's exposure which would reduce the risks involved but incur additional expense. It was expected that the post-Brexit market volatility would continue until at least 2020 and on that basis it would be safe and prudent not to hedge on currency in the meantime. The Board were reassured that officers were actively engaging with the issue of currency hedging however the proposal was to wait until 2020, until there was greater stability and a strengthening of sterling.

In response to questions from the Board the following was stated:

- The Fund was still overweight with equities but this was due to the strong performance of the UK-listed companies the Fund had investments in. This good performance was due to a number of key world issues such as Brexit, the election of Donald Trump and the growth of the Chinese economy.
- The Fund was subject to currency exposure in some areas; there was exposure to the Euro in the Fund's investments in European property and some private equities. There was also US Dollar exposure through listed and private equity.
- The Fund was still underweight in UK infrastructure and private rented sectors (PRS) investments. In addition to these asset classes, officers were monitoring emerging markets outside of Europe and North America.
- The Asset Allocation Strategy was reviewed in April 2015 and

that strategy was still in the process of implementation, though current world events had created challenges. The key challenge was the over-performance of equities; despite taking £100m out of this asset class it was still overweight.

The Board **NOTED** the contents of the report.

A8 **Agenda papers of the last Pension Committee**

The Head of Pensions and Treasury drew the Board's attention to item eight of the Committee agenda regarding Key Performance Indicators (KPIs). This report had been submitted upon request of a Committee Member and focussed on the most critical KPIs which included the Administration Strategy. Almost all the KPIs had been successful with a few exceptions surrounding data collation which would be addressed through the new iconnect software roll out.

Officers present at the meeting explained to the Board the process for collating missing information from employers. The response time was measured from when the missing information was identified by officers and suspended when the request for the information was sent to the relevant employer. Once the information was received from the employer the response time was re-commenced. Therefore the target of seven clear days could technically be met over a longer period of time, due to the suspension of measuring the response time when officers had contacted the employer. A key component of the iconnect software would be to identify missing information immediately so that officers could work on retrieving the data as soon as possible and thus provide a better service for customers.

Board members asked whether scheme employers were supportive of iconnect, including the additional costs incurred. The Pension Admin Manager responded that the costs were two fold; there was a one-off cost which the Fund would meet. The second cost related to the need to configure the software with the different payroll companies used by scheme employers. The new software would provide the best option to collect all the data required in a timely fashion. In addition, officers were looking to move the Fund's pension payroll system from OneOracle to a bespoke system designed specifically for pensions administration.

In response to questions from the Board, the following was stated:

- The overall cost of the iconnect system was relatively low and would improve the customer experience dramatically. It would also free up officer time and provide greater efficiency for the pensions team. There were also long term savings expected from the move to the new pensions pay roll system.

- The Fund's administration costs were above the average due mainly to the software used as it was a fully integrated and more efficient system. There were cheaper options on the market but would not provide such a high quality service. It was particularly important to get this area of the service effective as there were new pressures such as academisation and out-sourcing that put additional work load on the service.
- The roll out of the iconnect software was expected to be complete by April 2017. Not all scheme employers had been approached yet but all members were expected to be contacted in the coming weeks.
- The Fund had solid processes in place for issues arising from death right nominations. Where there is any uncertainty, the case is sent to the Section 151 Officer who will make a decision. However, in most cases where there is no named nominee when the scheme member dies, the pension will fall to the estate of the deceased. Where the decision of the Section 151 Officer is challenged, there are three levels of appeal in the LGPS before it will go for a final decision by the Ombudsman.

The Board **NOTED** the contents of the agenda papers from the last Pension Committee.

A9 **[The following motion is to be moved and seconded as the "camera resolution" where it is proposed to move into part B of a meeting]**

The Chair proposed, and Councillor Kabir seconded, that the remainder of the agenda move into Part B and the press and public be excluded from the meeting.

The Board **RESOLVED** to move the meeting into Part B and thereby exclude the public and press for the remainder of the agenda.

The meeting ended at 4.03pm