PENSION COMMITTEE

Meeting held on Tuesday 7 June 2016 at 10am in Room F10, The Town Hall, Katharine Street, Croydon, CR0 1NX

WRITTEN MINUTES – PART A

Present: Councillor Andrew Pelling (Chair);
Councillor Simon Hall (Vice-Chair);
Councillors Simon Brew, Patricia Hay-Justice, Maddie Henson, Yvette Hopley, Dudley Mead and John Wentworth

Also Present: Ms. Gilli Driver (Pensioner Representative)
Mr. Peter Howard (Pensioner Representative)

In attendance: Councillors Jamie Audsley and Humayun Kabir
Nigel Cook, (Head of Pensions and Treasury)
Richard Simpson, (Assistant Chief Executive and s151 Officer)
Freda Townsend (Governance and Compliance Manager)
David Lyons (Aon Hewitt)
Jolyon Roberts (Pegasus Academy Trust and Croydon Local Pension Board)
Richard Warden (Hymans Robertson)
Elizabeth Olive (Grant Thornton)
Rufaro Dewu (Grant Thornton)
Hugh Grover (Chief Executive, London CIV)

A15/16 APOLOGIES FOR ABSENCE

Apologies were received from Daniel Carpenter (Aon Hewitt) and Mike Ellsmore (Chair of Croydon Local Pension Board).

A16/16 MINUTES OF THE MEETING HELD ON 8 MARCH 2016

The Chair proposed the following amendments to the draft minutes:

- At A07/16 to re-phrase the sentence:
  "There was also concern raised over the proposed Secretary of State powers – as they stand it would allow intervention even where guidance isn't followed."
  to:
  "There was also concern raised over the proposed Secretary of State powers – as they stand it would allow intervention where rules are not followed but additionally where guidance is not followed."
- At A08/16 delete the word "attached"
- At A10/16, second paragraph – replace "The Committee" with "A Committee Member"

RESOLVED that, inclusive of the amendments stated above, the Part A minutes of the meeting held on 8 March 2016 be signed as a correct record of the decisions taken.

A17/16 DISCLOSURES OF INTEREST

The Chair advised Members that they should consider exercising caution as regards to their contribution to Committee discussions as they related to their declared employments, especially if they were not in possession of a relevant dispensation from the Ethics Committee.

At agenda item 6, Councillor Audsley declared that he was employed by Share Action, an ethical investment organisation.

At agenda item 11 Councillor Wentworth declared that he was offered a contract with the STEP Academy Trust for consultancy services and as such would not participate in the discussion or vote on this item.

A18/16 URGENT BUSINESS

There was no urgent business to consider.

A19/16 EXEMPT ITEMS

The allocation of business between Part A and Part B of the agenda were confirmed as stated.

A20/16 ACTUARIAL ASSUMPTIONS (item 6)

This item was facilitated by Richard Warden and was introduced with a presentation that is published online here.
The purpose of the valuation is to look back at the previous three years and determine what is required to meet the Fund's liabilities. Out of this process the contribution rates are recommended. The table at slide 5 identified the fundamental objective of the valuation – to bridge the gap between the liabilities of the Fund and its assets by estimating the future contributions and investment returns required. The Committee were directed to slide 6 which highlighted the many different bodies that now scrutinise the Local Government Pension Schemes (LGPS). It was added that the media and trade unions should be considered part of the scrutiny process as well.
A key outcome of the process is to establish a prudent discount rate, in relation to the rate of return for the investment funds. At Croydon the current discount rate was on an 80/20 ratio, which on an Asset Outperformance Assumption (AOA) of 2.2% would put the Fund in a 67% asset split. This was illustrated in the table at slide 10 where the traffic light system was explained as: Green – more than 69%, Amber – 65-69%,

Red – less than 65%. The second table at slide 10 illustrated the worst case scenario.
Richard Warden concluded that in his professional opinion the 2.2% assumption was prudent and he would be happy to sign off on it.
The second assumption to consider, detailed in slides 11 and 12, was an analysis of salary growth. The key issue here was austerity and the continued pay restraint within the public sector, which was currently a 1% pay rise per annum. The results of that analysis were detailed on slide 12.

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

- It was too early to estimate the likely effect of the outcome of the EU Referendum and so this has not been modelled into the process.
- What decisions other local authorities make with regard to their actuarial assumptions will become clear in September/October of this year. There is likely to be similarity between other London authorities, but the assumptions are likely to be different compared to other Funds outside of the capital.
- The traffic light parameters in the table at slide 10 are subjective and the professional opinion of Richard Warden – it illustrates the balance between the affordability of contributions and prudence.
- A balance needs to be struck between attaining the right level of money going into the Fund but not too much; there was a professional concern over raising the rate above 2.2%.
- The actuary is looking at the climate change risk but this hasn't yet been modelled.

In response to a question from the Committee, the Head of Pensions and Treasury added that a narrow approach was taken when considering investment in wind farms to mitigate the associated risks from this asset class.

The Committee considered the professional advice provided by the Scheme Actuary and were content to agree the assumptions made.

The Committee **RESOLVED** to:

1.1 Note the contents of the report.
1.2 Set an Asset Outperformance Assumption of 2.2%
1.3 Confirm that the pay growth assumption will be 1% per annum until 2020, and then RPI per annum thereafter.

A21/16 **PENSION FUND AUDIT PLAN** (item 7)

Elizabeth Olive from Grant Thornton introduced this item. The key risks identified were stated at pack pages 39 and 40 of the audit report: fraudulent transactions, management override controls and Level 3 Investments. There were also five other risks identified which were stated at pack pages 41 and 42 of the audit report.

There were no findings from the interim audit which was a positive outcome. The financial accounts were being received very soon from the Council and so the plan was for the final audit to be submitted for the September Pension Committee.

In response to questions from the Committee the following was reported:

- The cost for audit was the standard audit fee of £21,000 which is set by the Regulator.
- Currently the methodology was a substantive approach with sample testing. The vision is to move towards a controls approach from next year. The methodology has not changed significantly since the last audit.

The Assistant Executive Director, in response to a question from the Committee, confirmed that the Council recovers the VAT from the auditor’s fee.

The Head of Pensions and Treasury, in response to a question from the Committee, stated that the Fund is subscribed to the National Fraud Initiative and the risk of fraud is monitored by, for example, requiring proof of life.

The Committee **NOTED** the contents of the Audit Plan.

A22/16 PROCUREMENT OF PROFESSIONAL SERVICES THROUGH NATIONAL LGPS FRAMEWORK (item 8)

The Head of Pensions and Treasury introduced this item. It was stated that the smooth running of the Fund relies on the professional services of external organisations such as Aon Hewitt and Hymans Robertson. The contracts for these services are due for renewal next year and the National LGPS Framework helps to procure these services efficiently and with proper checks. Specialist legal services are also procured through the Framework. The company who undertake the Fund’s performance benchmarking have given notice that they are leaving this field of service and therefore it is proposed that this contract be sought through the Framework as well.

In response to questions from the Committee the Assistant Chief Executive stated the following:

- The Framework operates as an efficient route into the market but was not a joint contract with other authorities. Any services procured would be between the individual provider and Croydon.
- External legal services are used for specialist advice that cannot be obtained in-house and are procured on a case by case basis.
- All fees are set at a maximum rate through the Framework which can then be negotiated down with the individual providers.

The Committee **RESOLVED**:

1.1 That the contract for the Pension Fund investment consulting services, which is currently with AON Hewitt and will end 16 April 2017; The contract for Actuarial and benefit consulting services, which is currently with Hymans Robertson and will end 28 February 2017; and Legal services, in relation to the LGPS only;

are re-procured through the National LGPS Framework.

1.2 That officers are mandated to explore the option of jointly procuring Performance measurement services for the Pension Fund with partners within the London LGPS Pool, or more widely should the opportunity arise.

A23/16 **ADOPTION OF COMMUNICATION STRATEGY** (item 9)

The Head of Pensions and Treasury introduced this item. The Committee were directed to paragraph 3.1 of the covering report which listed the key stakeholder groups that the communication strategy was targeted at. The purpose of the strategy is to detail how these groups will be communicated with. Once the strategy is adopted it will be published on the Fund website.

In response to a question from the Committee it was stated that an annual members meeting used to be held but has recently been discontinued due to a combination of a lack of material to communicate and uncertainty of what to communicate at the event. However the concept had not been completely dismissed, with the key requirements being an appropriate venue and a clear message.

Jolyon Roberts expressed concern over some academy schools' experiences with communication through the Employers' Forum and Pension Board.

The Committee **RESOLVED** to approve the draft Communication Policy Statement.

A24/16 **ADOPTION OF DISCRETIONS IN RESPECT OF ADMITTED BODIES THAT ARE CLOSED TO FURTHER MEMBERS** (item 10)

The Head of Pensions and Treasury introduced the item. It was stated that LGPS regulations provide for approximately 200 discretions with regard to admitted bodies. The report explains the principles and definitions of discretions, for example on the basis of compassionate grounds. The discretions that are requested to be adopted are stated at paragraphs 3.4 to 3.7.

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The Committee **RESOLVED** to adopt the discretions listed in paragraphs 3.4 to 3.7 inclusive, in respect of deferred scheme members previously employed by admitted bodies who are now closed to new entrants and for whom there is no successor body.

A25/16 ACADEMIES IN ARREARS OF EMPLOYER CONTRIBTIONS TO THE LGPS (item 11)

The Head of Pensions and Treasury introduced the item. The issue of academies in arrears has been before the Committee several times in the last four years. Academies are given the same time period to recover the funding gap as the Council – 22 years. As such there is a risk based approach for setting contribution rates and there was no interest amongst academies for pooling. Pooling with the Council would be inappropriate as one of the key reasons for the establishment of academies is to create independence from local authorities. The report identified which academies are currently in arrears – this is a statutory requirement and the academies have been referred to the Pensions Regulator. The report also details the next steps – it was regrettable that this has required the preparation of issuing legal proceedings to recover the sums owed.

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

- There is an equality of treatment between all admitted members, and the same assumptions are used for all academies.
- Local authorities inherently have strong covenant strength, unlike private companies, and this Committee has previously agreed that academies should be treated in the same manner.
- Officers had exhausted all forms of communication to create a dialogue between the academies in arrears. The methodology over how the contribution rates are set appears to be the fundamental issue for some of the academies.

Richard Warden added that he had not come across another local authority with this many academies in arrears. In terms of contribution rates, Croydon sits in the middle range for local authorities.

Jolyon Roberts stated many academies believed they were not receiving equal treatment and did not feel the consultation was meaningful.

The Committee was of the opinion that action had to be taken given how prolonged the issue of arrears had been. It was considered appropriate to take legal action as professional advice had been received regarding the assumptions used for the contribution rates and there was a fiduciary duty to recover the owed sums.

The Chair proposed, and Councillor Henson seconded, that two additional resolves be added for this item (1.3 and 1.4 as stated below).

The Committee **RESOLVED**:

1.1 To note the contents of the report and the actions described therein.
1.2 That the actions taken and those proposed are sufficient to discharge their responsibility under the Pensions Regulator's Guidance.
1.3 To look forward to improved communication between the Fund and the academies sector.
1.4 To require officers to keep the Committee informed of the course of legal action to recover contributions in arrears.

A26/16 **GOVERNANCE REVIEW: LOCAL PENSION BOARD** (item 12)

The Head of Pensions and Treasury introduced the item. It was stated that the contract to undertake the review was put out to open competition and was won by Aon Hewitt. Paragraph 3.4 of the covering report summarises the key findings of the review; there were many examples of best practice and five recommendations arising. Three of these recommendations have already been actioned and the remainder are currently being worked on by officers.

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

- Council officers had no direct input into the drafting of the report so the ambiguity of the phrasing "meets legal requirements on the whole" could not be specifically commented upon. However, Committee members were reassured that there was nothing in the report that suggested the Fund was being administered contrary to legal rules.
- There was nothing in the report that officers took issue with.

The Committee discussed the possibility of attributing voting rights to the co-opted members of the Committee. It was agreed that the Constitution would be consulted and this matter would be revisited.

The Committee **RESOLVED** to:

1.1 Note the contents of the Governance review.
1.2 Note the progress against achieving the goals set out in the action plan.
1.3 Request that further progress against this action plan be reported to the Committee in six months.

A27/16 **UPDATE FOR LONDON CIV** (item 13)

Hugh Grover introduced this item with a presentation that can be found online here. There are 33 London funds that the London CIV is working on behalf of, with nearly £30 billion worth of assets. Three years ago there

was a strong movement towards merging the London funds; this was ultimately dropped by Council leaders due to the impact of such a merger on fund sovereignty. London Councils was then tasked with developing a merger-based solution that maintained local sovereignty. This solution ultimately became the London CIV. Central government policy has since moved away from mergers but towards six to eight regional pools nationally. Governance at a local level is not affected however the ultimate decision to appoint a fund manager will reside with the company (i.e. the London CIV).
The guiding principles of the London CIV are that funds should enter it voluntarily and choose which asset classes they wish to invest into. The Committee were directed to the diagram at page seven of the presentation, which illustrated a simplified structure of the different sub-funds that local authorities choose to invest in. This “umbrella fund” also had the advantage of creating tax efficiency.
The Committee were informed that looking forward, the London CIV is searching for a global equity manager, and accessing property and other real assets.

In response to questions from the Committee the following was reported:

- Some loss of control from local authorities is necessary for the CIV to operate effectively, however the extent of this loss is significantly less than the merger proposition.
- Fund manager decisions will not be right every time, however the sub-funds will be monitored by the CIV as well as by individual funds, so there is an increased level of scrutiny.
- Local authorities will still be in control of their own asset strategies, the CIV’s role is to provide sub-funds to support delivery of those strategies. It is estimated that between 30 to 40 sub-funds, covering a range of asset classes, will be established.
- Ethical investment is a tricky issue as there is a polarity amongst different boroughs. The current policy is where the CIV have voting shares managers are asked to vote based on the Local Authority Pension Fund Forum (LAPFF) principles and guidance.
- Costs for the CIV are estimated to be in the region of £1.5 million – this is recovered through service charges to each participating borough and a fee to assets under management. The CIV is not a profit-making scheme.

The Committee **NOTED** the contents of the verbal report.

A28/16 **PROGRESS REPORT FOR QUARTER ENDED 31 MARCH 2016** (item 14)

The Head of Pensions and Treasury introduced the item. The key headline of the report was a modest increase of the Fund’s value to £863 million. The Committee were also directed to Appendix G which provided an update on implementation of the revised investment strategy.

In response to questions from the Committee, David Lyons stated that:

- 1.25% per quarter will deliver the recovery plan within the time frame required.
- The Fund is looking to diversify investments away from equities. The London CIV will provide more opportunities for diversification.
- Some London boroughs have taken a less diversified approach which has worked well over previous years but may not deliver growth as strongly in the next five years.
- The Private Rented Sector (PRS) and property sectors were less likely to be affected by the EU referendum than other investments; the demand for affordable housing in London for young professionals is unlikely to diminish in the near future.

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

A29/16 **CAMERA RESOLUTION** (item 15)

The CAMERA resolution was proposed by Councillor Pelling and seconded by Councillor Henson.

The Committee **RESOLVED** that the Press and Public be excluded from the remainder of the meeting on the grounds that it is likely, in view of the nature of the business to be transacted or proceedings to be conducted, that there will be disclosure of confidential or exempt information falling within those paragraphs indicated in Part 1 of Schedule 12 A of the Local Government Act 1972, as amended.

SUMMARY OF PART B DISCUSSION

A30/16 The remainder of the meeting included disclosure of exempt information (as defined by paragraph 3 of Schedule 12A in Part 1 of the Local Government Act 1972: ‘Information relating to the financial or business affairs of any particular person (including the authority holding that information)’. The minutes of the discussion are therefore also exempt and not available to the public.

A summary of the discussion is below, as required by section 100C(2) of the Local Government Act 1972.

item B1. The Committee **RESOLVED** that the Part B minutes of the meeting held on 8 March 2016 be approved as a correct record of the decisions taken and be signed by the Chair.

item B2. Progress Report for Quarter Ended 31 March 2016 (exempt under paragraphs 3 & 10)

The Committee **NOTED** the Part B content of the progress report.

The meeting ended at 13.03pm.