

PENSION COMMITTEE

Meeting held on Tuesday 8 September 2015 at 10am
in Room F10, The Town Hall, Katharine Street, Croydon, CR0 1NX

WRITTEN MINUTES – PART A

Present: Councillor John Wentworth (Chairman);
Councillor Simon Hall (Vice-Chairman);
Councillors Jan Buttinger, Humayun Kabir, Yvette Hopley, Maddie Henson, Dudley Mead, and Andrew Pelling

Also Present: Mr. Isa Makumbi (Staff Side Representative)
Ms. Gilli Driver (Pensioner Representative)

In attendance: Daniel Carpenter, David Lyons (Aon Hewitt)
Richard Warden, (Hymans Robertson)
Mike Ellsmore, (Chair of the Local Pensions Board)
Sue Exton, (Grant Thornton)
Nigel Cook, (Head of Pensions and Treasury)
Freda Townsend, (Head of Pensions)
Sam Fisher, (Investment Officer)
Matthew Hallett, (Pension Fund Investment Manager)
Richard Simpson, (Assistant Chief Executive and s151 Officer)

A23/15 APOLOGIES FOR ABSENCE

Apologies were received from Mr. Peter Howard (Pensioner representative)

A24/15 MINUTES OF THE MEETING HELD ON 9 JUNE 2015

RESOLVED that the Part A minutes of the meeting held on 9 June 2015 be signed as a correct record of the decisions taken.

A25/15 DISCLOSURES OF INTEREST

No disclosures of interest were made during the meeting.

A26/15 URGENT BUSINESS

There was no urgent business to consider.

A27/15 EXEMPT ITEMS

RESOLVED: That the allocation of business between Part A and Part B of the agenda be confirmed, as printed.

A28/15 **PROGRESS REPORT FOR QUARTER ENDED 30 JUNE 2015** (item 6)

The item was introduced by the Head of Pensions and Treasury. The Committee heard that the lack of progress towards long term targets was due to the Sterling performing strongly on the currency exchange market. The drop in passive investments was due to tax arrangements which over the long term would recover.

In response to questions from Committee it was stated that substantial research had been undertaken on emerging markets and 5% investment had been factored into this area. Due to the current market volatility this investment had not yet been implemented.

Daniel Carpenter stated that the quarter had been a challenging one with weak equity and bond performance; however the property and infrastructure sectors had performed strongly. It was emphasised that not only was this quarter a challenging one, but July and August had seen difficulties as well.

In response to questions from Committee it was stated that market volatility was also due to a lack of liquidity – caused mainly by less deals taking place over the holiday season. It was expected that liquidity would improve as the holiday season ended. Greater diversification was being considered, particularly in the private property and infrastructure sectors.

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

A29/15 **EXECUTING REVISED ASSET ALLOCATION** (item 7)

The item was introduced by the Head of Pensions and Treasury. It was reported that there would be greater allocation to infrastructure and the private rental sector. The private rental sector is an immature market and a number of leading fund managers have been considered, with recommendations to be made to Committee soon. Formal notice has been given to Blue Crescent to liquidate funds back to us. This was done at the earliest possible opportunity as there is a complex process to return funds.

The Committee **RESOLVED** to:

1. Approve the asset allocation strategy as set out in the report
2. Note that the process of Fund manager selection has been delegated to the Assistant Chief Executive, in consultation with the Chair
3. Note the provisional timeline for implementation of the strategy
4. Noted the advisory comment in section 1.1.3. of the report

A30/15 EMPLOYER RISK STRATEGY (item 8)

The item was introduced by the Head of Pensions and Treasury. It was reported that the Pensions Regulator is now responsible for the LGPS and a code of practice has been produced which must be adhered to. One aspect of this code of practice is to undertake an employer risk strategy.

Richard Warden stated that robust funding plans are required in the new era of the LGPS where Croydon has a number of employers within the scheme such as subcontractors and academies. A key duty is to ensure that employers pay their rates; two risks associated with this duty are employers' ability to pay and willingness to pay. Engagement with employers is key and a suggested timetable is included within the report. In response to questions from the Committee it was stated that employee contributions could only be amended by central government.

The Committee **RESOLVED** to approve the schedule of work as stated in the report.

A31/15 STATEMENT OF ACCOUNTS AND ANNUAL REPORT (item 9)

Sue Exton introduced the item and reported that the audit had gone well and only a few adjustments had been required.

The Head of Pensions and Treasury thanked the auditors for their report. The annual report was introduced and it was explained that the report followed a constrained format as directed by guidance. It was highlighted that at this stage the document was still a draft and comments were invited from the Committee. The final version would be published on the Fund website – there is no longer a requirement to print hard copies.

The Committee **RESOLVED** to:

1. Approve the Pension Fund Annual Report, subject to any required amendments
2. Note the Annual Governance Report from the Fund's auditors

A32/15 LONDON CIV – DELEGATED AUTHORITY AND REGULATORY CAPITAL (item 10)

The Head of Pensions and Treasury introduced the item by reporting that the CIV was now operational subject to approval by the Financial Conduct Authority (FCA) and the intention was to begin investments within this calendar year.

In response to questions from the Committee it was stated that all authorities within the CIV contribute the same value of regulatory capital and as such there is no subsidising of other councils. Of the 33 London

boroughs, 31 have joined with the possibility of the other two joining at a later stage. The main savings achieved are cheaper fees and the ability to move between investments without incurring procurement costs. The level of savings is projected to be in the hundreds of thousands of pounds and in the longer term potentially millions of pounds.

The Committee **RESOLVED** to:

1. Note the update on the progress of the CIV
2. Delegate authority to the Assistant Chief Executive, in consultation with the Pensions Committee Chair, to settle any contracts concerned with CIV on behalf of the Council and Pension Fund
3. Delegate authority to the Assistant Chief Executive, in consultation with the Pensions Committee Chair, to invest sums required for regulatory capital to the London CIV to meet the requirements of the FCA authorisation
4. Agree that where circumstances arise and the Committee is not available for consultation, delegate to the Assistant Chief Executive in consultation with the Pensions Committee Chair, 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 Pension Fund

A33/15 CONSULTATIONS RELATING TO LGPS AND PENSIONS (item 11)

The Head of Pensions and Treasury introduced the item by reporting that the Code of Practice required the Fund to publish the annual benefits savings for staff report by August 2015. It was reported that this deadline was missed due to a combination of technical issues and the fact that many employers are schools which were shut during the summer months. The Committee was assured that these were teething problems and that officers fully expected to comply with the deadline from next year. It was emphasised that no statutory obligations were being breached by missing the deadline – the deadline was set by the Code of Practice.

Since the summer budget a number of consultations on public sector pensions had taken place. One specific requirement from the consultations was the need for Funds to pool investments to increase savings. Experience suggests that the government targets for savings will be ambitious.

There is currently a consultation taking place with regards to tax relief on pensions. The question is whether tax relief should come at the point of contributions or receipt of benefits. The current situation is tax relief at point of contribution. Officers expressed concern that to reverse this process would disincentivise people to save.

The government have announced a consultation on capping the amount of redundancy and other exit payments in the Public Sector to £95,000. The summer budget also introduced a tapered reduction in the £40,000 annual allowance down to a minimum of £10,000 for those with earnings,

including pension contributions, of over £150,000. This is on top of the already announced reduction in the lifetime allowance from £1.25m to £1m. Both will come into effect from April 2016. The tapered annual allowance has also required the introduction of a complex mechanism to align all pension input periods with the tax year by April 2016. It all means even more challenges for administrators.

Finally, it was reported that KPMG had been appointed by the LGPS Scheme Advisory Board to conduct work into exploring a set of options. The first was for a stronger role for the Section 151 Officer within a distinct entity of the host authority. The second option was a Joint Committee of two or more administering authorities. The final option was for complete separation of the pension fund from the host authority.

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

A34/15 CAMERA RESOLUTION (item 11)

The CAMERA resolution was proposed by Councillor Wentworth and seconded by Councillor Mead.

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

A35/15 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 9 June 2015 be approved as a correct record of the decisions taken and be signed by the Chairman.

item B2. Progress Report for Quarter Ended 30 June 2015 (exempt under paragraphs 3 & 10)

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