

Pension Committee

**Meeting held on Tuesday 18 October 2016 at 10:00 a.m. in Council Chamber,
the Town Hall, Katharine Street, Croydon CR0 1NX**

DRAFT MINUTES - PART A

Present: Councillor S Brew, Councillor P Clouder, Councillor S Hall,
Councillor P Hay-Justice, Councillor M Henson, Councillor Y Hopley,
Mr. P Howard, Mr. I Makumbi, Councillor D Mead, Councillor A
Pelling, Councillor J Audsley(Also In attendance)

In attendance: Nigel Cook (Head of Pensions and Treasury), Lisa Taylor (Assistant
Director of Finance and Deputy S151 Officer), Mike Ellsmore (Chair
of Croydon Pension Board), Daniel Carpenter (Aon Hewitt), David
Lyons (Aon Hewitt), Bryan Chalmers (Hymans Robertson), Robbie
McInroy (Hymans Robertson), Richard Simpson (Executive Director -
Resources).

MINUTES - PART A

A1 Minutes of the last meeting

The minutes of the meeting held on 23 May 2016 were approved as a correct record of the meeting.

The minutes of the meeting held on 7 June 2016 were approved as a correct record of the meeting, save that Councillor Audsley requested that at minute A17/16 the description of Share Action be changed to "a responsible investment organisation".

A2 Disclosure of Interest

There were none.

A3 Urgent Business (if any)

There was no urgent business to consider.

A4 Exempt Items

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

A5 2016 Actuarial Evaluation

The item was introduced by the representatives from Hymans Roberston with a presentation which can be found online here: <https://secure.croydon.gov.uk/akscroydon/users/public/admin/kab14.pl?operation=SUBMIT&meet=23&cmte=PEN&grpid=public&arc=1>

It was stated that a valuation was required by law, and the presentation would present the initial findings of the Croydon fund. The graph at slides 11, 12 and 13 highlighted the many uncertainties involved in the valuation process. Some assumptions were more important than others and the task of the actuary was to make a prudent estimate. These assumptions were revisited and reset every three years.

Economists were forecasting lower returns on investments than in previous years and for a prolonged period of time; the anticipated returns were 4.4%. Whilst investment returns had been unusually strong, the assumption was based on this lower rate due to the economic forecasts for the coming years.

The table on slide 16 illustrated the whole fund results, which were calculated by collapsing all the different cash flows into one date. The information must be submitted to the LGPS Scheme Advisory Board (SAB) who would then make their own valuation. The SAB valuation process is completely different and is used more for the purposes of creating a league table system for fund comparison. Slide 23 illustrated a risk register of scheme members to measure the risk of employers failing to meet contribution rates. The graphs on slides 24 and 25 measured five thousand possible outcomes and assessed the probability of those outcomes occurring.

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

- Academies were assessed as low risk in slide 23 because they were essentially underwritten by central government.
- The recommended contribution rates stated in slide 26 were measured as a percentage of salary contributions by the employer. It also took into account contributions towards the deficit.
- In "dry runs" of the valuation in 2013 a number of amber flags were identified. However the key point was to have a plan towards full funding, and league tables of funds did not always show the full picture.

The Committee **NOTED** the presentation from Hymans Robertson.

A6

Annual Report and Local Pension Board Report

The Head of Pensions and Treasury introduced the item by confirming that the submitted papers included the final set of accounts that had been audited with a positive outcome.

In response to questions, the following was stated:

- At the time of publishing the report the Fund still had cash held with Blue Crest, hence why this is accounted for. There is generally a six month delay when closing an account for the cash to return to the Fund.
- The significant drop in the profit on disposal of investments, at pack page 47 of the report, does not reflect anything of concern, and was just a matter of when the data was collated. Investments were held for as long as possible and were only sold to reinvest. The Executive Director for Resources added that the significant increase in the fund between April 2014-15 should also be taken into account when considering these figures.
- Receipt of contributions from academies was monitored on a monthly basis and there was a team who engage with academy members on an almost daily basis. The team worked with academies failing to meet their liabilities, and in extreme cases they could be reported to the Pensions Regulator.
- The private companies listed in the table on pack page 52 related only to members of staff who had been transferred via the TUPE process to the listed companies.
- The administration strategy for the Fund set out all the Key Performance Indicators (KPIs) for the administration of the fund and was a publicly available document.
- Communication with scheme members is only undertaken where necessary, as experience had shown that communicating too frequently with members raised concerns with some. Officers would welcome ideas from Committees regarding communication with members.
- The Fund was not actively involved in the SF3 costs scheme. It was the view of officers that the scheme did not properly account for the quality of service provided and reduced the process purely to a costs comparison. The Fund spent considerable money on providing a high quality service through communication, IT systems and other such outlays.

The Chair identified a number of corrections for the annual report:

- At page 21 there were three rather than four non-voting members.
- At page 21 references to "Chairman" and "Vice-Chairman" needed to be replaced with "Chair" and "Vice-Chair".
- At the Asset Allocation section (page 38) there was a number missing in the year of hedge fund liquidation. There was also a typo of "investing" and "Private Equity" was required to be capitalised in that section for consistency with the rest of the report.
- At page 19, fourth paragraph, to rephrase "so to maintain" to "so as to maintain".
- At page 38, the second sentence in the first substantial paragraph required the removal of "take" after "illiquid and the". In the same sentence, an "o" needed to be removed from

the final word. Within the same paragraph, "201" needed to be replaced with "2015".

The Committee considered that it would like to see the Fund's SF3 figures to ensure that members were receiving value for money. The Committee also heard from officers that a slight change in the wording of recommendation 1.2, as stated in the covering report, was required.

The Committee **RESOLVED** to:

- 1.1 Approve the Pension Fund Annual Report, subject to the amendments identified by the Committee.
- 1.2 Note the contents of the Audit Finding Report from the Fund's Auditors.
- 1.3 Note the Annual Report of the Local Pension Board
- 1.4 Request the Fund's SF3 costings be brought to the next Committee meeting.

A7 Risk Register and Business Plan

The Head of Pensions and Treasury introduced the item by stating that the administration of the Fund was the main focus of the risk register.

The Committee **NOTED** the contents of the risk register.

A8 Section 13 Report

The Head of Pensions and Treasury introduced the item by stated that the report summarised the findings of the "dry run" Section 13 report by the Government Actuary's Department. The overarching results of the report were that the LGPS was one of the best-managed public sector schemes. As stated in paragraph 3.7 of the report, there was one amber flag identified in the Croydon scheme. Officers were confident that this matter would not reappear in the upcoming valuation.

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

A9 Progress Report for Quarter Ended 30 June 2016

The Head of Pensions and Treasury introduced the item by highlighting to the Committee the new layout of the report for this standing item. Attention was drawn to the graph on pack page 121. The blue line showed the actuary's assumptions from the last valuation as compared to the actual outcomes plotted by the red line. Attention was also drawn to the table on pack page 123 and specifically the third column that identified profit levels from the

different fund managers. The fund valuation figure at the last row of column four had since been updated to £980 million. Finally, on the table at pack page 127, in the infrastructure sub-section, 7.6% should be the figure that read "#REF".

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

- The recently approved asset allocation strategy put an emphasis on property and infrastructure, a de-risking of the strategy that had helped reduce the Fund's exposure to the weakening of the pound sterling.
- The Private Rental Sector assets were focussed on the top-end of the sector, with examples such as the Saffron House development in West Croydon. This class of property had been less affected by the Brexit vote and so good returns were still expected despite the referendum result. Social housing did not form part of this portfolio.

The Executive Director for Resources confirmed that officers were looking at L&G investment options but there was nothing on the table at that stage.

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

A10 [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]

Councillor Pelling proposed, and Councillor Henson seconded, the CAMERA resolution to move the remainder of the meeting into Part B.

The Committee **RESOLVED** to approve the CAMERA resolution.

A11 Any Other Business

Peter Howard raised with the Committee the possibility of allowing the pensioner representatives a vote on the Committee.

Councillor Hall stated that as this was a constitutional matter it would have to be brought to Annual Council. Councillor Hall stated that, in principle, he was in favour of allowing pensioner representatives a vote, but it was also important to ensure that political proportionality was maintained on the Committee. It was proposed that the pensioner representatives were allocated one vote to be shared between the two members.

Peter Howard stated that he would support such a proposal.

Committee Members expressed support for the proposal but raised concerns over the legal validity of granting the vote. The Head of Pensions and Treasury confirmed that legal advice was received when pensioner representatives were first introduced to the Committee, and the regulations did allow for the granting of voting rights by the Pension Committee. There was an important distinction that the pensioner representatives were not co-optees, but elected to the Committee.

The meeting concluded at 12.08pm