

Pension Committee

Meeting held on Tuesday, 15 September 2020 at 10.00 am in This meeting is being held remotely; to view the meeting, please click here.

MINUTES

Present: Councillor Humayun Kabir (Chair);

Councillors Simon Brew, Robert Canning, Clive Fraser, Patricia Hay-Justice and Yvette Hopley

Co-opted Members: Ms Gilli Driver, Mr Peter Howard and Charles Quaye

Also Present: Michael Ellsmore: Independent Chair of the Pension Board
Nigel Cook: Head of Pensions and Treasury
Victoria Richardson: Head of HR and Finance Service Centre
Peter Gent: Senior Investment Consultant, Mercer
Matthew Hallett: Pension Fund Investment Manager

Apologies: Councillor Simon Hall (Vice-Chair)

PART A

1/20 Minutes of the Previous Meeting

The minutes of the meeting held on 17 March 2020 were agreed as an accurate record.

Councillor Hopley emphasised her concerns regarding the revisions to the Asset Allocation Strategy as noted in the minute for item 27/20. Further clarification had been promised from Mercer but had not been provided.

In response, the Head of Pensions & Treasury reported that the previous meeting had been held just before the beginning of lockdown with the Mercer representative unable to attend. As a result, the decision had been taken without the benefit of investment advice. In conversations subsequent to the meeting, officers and Mercer were in agreement that there were risks in the decision taken to place such a large investment in one fund. However, there had not been the opportunity since the meeting to do the due diligence required. The commitment was made to do the work and report back.

This was supported by the Mercer representative present at the meeting. The investment advice provided by letter to the previous meeting had expressed comfort to the level of a 5% allocation, but anything in excess of this would require more advice.

Councillor Canning, seconded by Councillor Fraser and agreed by Members, expressed gratitude to Councillor Pelling for his chairing of the Committee and the increase to the value of the fund achieved under his stewardship.

Councillor Kabir also extended thanks to Councillor Pelling for his contribution chairing the Committee.

2/20 Disclosure of Interests

There were none.

3/20 Urgent Business (if any)

There were no items of urgent business.

4/20 Progress Report for the Quarter ending 30 June 2020 (Part A)

The item was introduced by the Head of Pensions & Treasury. Due to the cancellation of the June 2020 meeting, the report provided a progress report for a six month period rather than the usual quarter. The value of the Croydon Local Government Pension Fund had increased by 1%, taking it from £1.3 to 1.4 billion. This represented that there had been a significant recovery in the market. A detailed review by asset class was provided in paragraph 3.6 of the report with mitigation for recent events being sought through the allocation. It was reported that manager visits were still occurring in lockdown and therefore due diligence was being achieved.

Members explored a number of issues arising from the report.

In reference to paragraph 3.6.5, Councillor Hopley wanted to understand the impact of Covid on traditional property. The Head of Pensions & Treasury responded that whilst property had returned 6/7% year on year, it was expected to suffer. However, as this was illiquid, the best approach was to continue with the asset and not to try to exit even if this tested the portfolio. The performance of some elements of the portfolio were expected to be less impressive. The Mercer representative concurred given Covid was fundamentally life changing in the short time. Difficulty was caused by the asset being illiquid and therefore the key question to ask the manager regarded the stability of the rental income. It was noted that property had been buoyed by interest rates going down.

The Head of Pensions & Treasury agreed to provide Members with greater detail on the performance of the fund in the quarterly reports as had been provided previously.

The Pension Fund Investment Manager provided clarification that the Legal & General 4Good fund was a legacy holding for the purpose of reclaiming tax and in effect was a cash holding.

In response to Councillor Canning's question regarding the impact of Covid including on short term cash generation used to pay pensions on a monthly basis, the Head of Pensions & Treasury reported that contributions almost exactly balanced payments out. As a result, it meant there was no requirement to liquidate assets. In a supplementary question, Councillor Canning sought to understand if this would continue with the impact of the Croydon Council headcount reduction. The Head of Pensions & Treasury explained that this was difficult to determine and that of the 400 staff members being made redundant, a number would be part of the pension scheme. It was stressed that collectively, this represented a small proportion of the fund overall. The Triannual Evaluation would not be revisited until 2022/23.

RESOLVED: The Committee AGREED to note the report in addition to the request for reports on traditional and commercial property.

5/20 Key Performance Indicators for the Period Ended 31 July 2020

The item was introduced by the Head of HR & Finance Service Centre. It was explained that there had been a number of challenges during the period including adapting to new ways of working during the pandemic, the increased number of joiners and leavers in addition to supporting staff affected by the staff consultation. It was highlighted that performance remained good for deaths and retirement. There had been a slight increase in outstanding cases, but it was noted that 60% were the historical backlog. This was to be addressed through contracting out which was in progress.

The Independent Chair of the Pension Board gave his feedback on the report. This was described as good with reassurance provided by the way performance was being measured. The need for improvement in calculating benefits was highlighted and the data on the provision of annual benefit statements was missing. How to drive up the number of members accessing their annual benefits statement needed to be considered.

In response, the Head of HR & Finance Service Centre reported verbally that 99% of all active and deferred members had been provided with an annual benefit statement by 31 August 2020 with those outstanding being examined. Communications would take place in October 2020 to encourage all members to make better use of the self-service facility.

Members were briefed that approval was being sought to recruit externally to the remaining vacant posts.

RESOLVED: The Committee AGREED to note the report.

6/20 Pension Fund Annual Report 2019/20

The item was introduced by the Head of Pensions & Treasury. It was explained how the report reflected that the Pension Fund Annual Report for 2021/20 remained outstanding as part of the process for completing the Council's accounts for the same period; the Pension Fund was incorporated

as a separate part of the Council's accounts. This meant that whilst it was possible to describe the process for the production of the report, it was not yet possible to provide the Committee with the final report for its review.

RESOLVED: The Committee AGREED to note the report.

7/20

Pension Fund Business Plan

The item was introduced by the Head of Pensions and Treasury. It was explained that the report dealt with the governance arrangements needed to manage the fund effectively. The business plan was to be published on the Pension Fund website describing how the work of the fund was undertaken.

Members explored a number of issues arising from the report.

In response to the request from the Independent Chair of the Pension Board for an assessment of the impact of the McCloud judgement on the administration of the scheme, the Head of Pensions & Treasury explained that work was ongoing to develop a plan with Hymans that it should be possible to incorporate into the business plan. The resource implications of the McCloud judgement for the administration team were stressed with it expected that they could be achieved but would have an impact.

Councillor Hopley sought clarification on the implementation of the recommendations arising from the review of governance commissioned by the Pension Board. The Head of Pensions & Treasury provided reassurance that implementation of the recommendations was either reflected in future work programmes or had been completed.

In response to Councillor Brew's question about the variation between actual and estimated management expenses, the Pension Fund Investment Manager explained that the anticipated increase related to the transparency code. This meant that it would be possible to include transaction costs and broker fees in full. It was also highlighted that the funds being chosen were more expensive to run but that returns were demonstrating the worth.

The Pension Fund Investment Manager agreed that it would be possible to provide proportionate investment costs against the assets to understand which were more costly. However, this depended on more managers signing-up to the transparency code. It was anticipated that this would occur over the next year or more based on existing take-up.

Peter Howard sought information on whether or not all 90 organisations were contributing in full. The Head of Pensions & Treasury highlighted that those employers in arrears would be identified in the accounts with one long term debtor being subject to appropriate legal action. Assurance was provided that there was no concern about other contributing organisations. Contributions were constantly reviewed to ensure they were on track.

RESOLVED: The Committee AGREED to note the report.

8/20 Pension Committee Forward Plan

The item was introduced by the Head of Pensions and Treasury. It was explained that the report set out the Committee's future work for the remainder of the municipal year.

At the Committee's request it was agreed to add an item on the McCloud judgement.

The issue of funding printed copies of the agenda pack for those Members requesting them was discussed. Whether this could be funded by the Pension Fund was to be explored subsequent to the meeting.

RESOLVED: The Committee AGREED to note the report.

9/20 Risk Register review

The item was introduced by the Head of Pensions & Treasury. The section detailing mitigations for this year and future years was highlighted and how there was a section looking specifically at macro-economic risks.

Members explored a number of issues arising from the report.

In response to Councillor Hopley's question it was explained that any risks from the Property Transfer would not be seen for 40 years and therefore were not immediately impactful. This was included on the risk register but as a result only at ranking of 1 or 2. It would be monitored in the background rather than being brought to the attention of the Committee.

In response, Members suggested the Property Transfer should be rated as an amber risk. The Head of Pensions & Treasury explained that the Council's claim on the properties was registered in the head leases of the individual properties. This meant if they were sold, it would become apparent that there was a charge against the sale.

It was established by the meeting that the disaster recovery processes were fully tested annually and documented.

Councillor Hay-Justice commented that the risk of a potential cash shortfall also need to reflect the impact of the Croydon headcount reduction. The Head of Pensions & Treasury explained that the headcount reduction was not thought likely to have an impact. This was because those approaching retirement age had already been factored in. Whilst this was not an exact processes it would continue to be monitored. The Pension Fund Investment Manager highlighted that there was actually a benefit to the Fund from those retiring early.

In response to Councillor Fraser's belief that the treatment of the risk from Brexit was too optimistic, the Head of Pensions & Treasury highlighted the

difficult of this evaluation with this situation developing almost weekly. It was also stressed that there was a need to judge this risk from a global perspective rather than one that was UK centric; the global economy was unlikely to be subject to a lot of damage as a result of Brexit.

The Mercer adviser concurred noting that the work done 18 months ago had provided protection through geographical diversification. However, it was thought there might be a need to take action around the administration of the Fund as the risk came from it being structurally anchored to the UK. With payment in Sterling this might lead to some volatility. It was suggested that this might be something the Committee would want to revisit although there was a warning about taking decisions on short term news.

It was explained that payments were linked to inflation and that Brexit was inflationary which risked assets not keeping up with the liabilities. There were products that allowed some inflation linkage. It was described how this could be considered as part of the ongoing evaluation of the fund rather than there being a need for immediate action.

Gilli Driver asked questions regarding the timescale for the implementation of the McCloud judgement and whether the risk of intervention by the Ministry of Housing, Communities and Local Government had diminished.

The Head of Pensions & Treasury highlighted that based on the actuary's assessment, the Croydon Local Government Pension Fund has shifted from 73% to 87% funded and that therefore the potential for intervention by the Government was likely to have reduced. Additionally, it was noted that timescales for implementing the McCloud judgement had initially been stated as Spring 2021 but it was thought that this might be relaxed as it was likely other requirements would be included.

Based on initial analysis, the Head of HR & Finance Service thought some 5,000 cases might need to be recalculated based on the McCloud judgement. There was a reliance on the software provider to establish the facility to undertake this recalculation and employers to provide the details needed for this to be carried out. Once the legislation was published, its implications would be better understood

RESOLVED: The Committee AGREED to note the report.

10/20 Reporting breaches of the law

The item was introduced by the Head of Pensions & Treasury. It was explained that the report and the log provided in the agenda pack were a complete refresh of the process employed bringing this in line with requirements. It was highlighted that two breaches of the law had occurred and both were detailed on the log. There was no issue to log with regard to issuing annual benefit statements as this simply reflected a data issue and the requirement had been met.

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The Independent Chair of the Pension Board noted that the policy placed a lot of responsibility on Pension Board members without much requirement on the Pension Committee. Whilst this reflected the guidance of the Pension Regulator, it was recommended that this be examined by the members of the Pension Board at their meeting in October 2020

Peter Howard left the meeting.

RESOLVED: The Committee AGREED to note the report subject to the comments regarding the Pension Board's review of the Breaches of the Law Policy.

11/20 Exclusion of the Press and Public

The following motion was moved by Councillor Kabir and seconded by Councillor Hay-Justice to exclude the press and public:

“That, under Section 100A(4) of the Local Government Act, 1972, the press and public be excluded from the meeting for the following items of business on the grounds that it involves the likely disclosure of exempt information falling within those paragraphs indicated in Part 1 of Schedule 12A of the Local Government Act 1972, as amended.”

The motion was put and it was agreed by the Committee to exclude the press and public for the remainder of the meeting.

12/20 Progress Report for the Quarter ending 30 June 2020 (Part B)

This report was considered in Part B of the meeting.

The meeting ended at Time Not Specified

Signed:

Date: