

Pension Committee

Meeting held on Tuesday, 8 December 2020 at 10.00 am in This meeting will be held remotely

MINUTES

- Present:** Councillor Andrew Pelling (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:** Nigel Cook, Head of Pensions and Treasury
Victoria Richardson, Head of HR Finance Service Centre
Alison Fisher, Pensions Manager
Matthew Hallett, Pension Fund Investment Manager
Ian Talbot, Pension Fund Investment Manager
Peter Gent, Senior Investment Consultant, Mercers
Daniel Turner, Mercers,
Robert McInroy, Hymans
- Apologies:** Councillor Simon Hall and Jan Buttinger
Lisa Taylor, Director of Finance Investment and Risk and S151 Officer

PART A

1/20 Minutes of the Previous Meeting

The minutes of the meeting held on 15 September 2020 were agreed as an accurate record, subject to the following amendment:

Minute No 7/20 Pension Fund Business Plan

Councillor Yvette Hopley requested the figures since inception for each fund as had previously been provided in previous reports to the Committee and it was agreed that this would be included in future papers.

2/20 Disclosure of Interests

Members declared interests in relation to discussions around the property transfer as they are representatives of the employing authority.

3/20 Urgent Business (if any)

There were no items of urgent business.

The Chair took the opportunity to advise Members of the Committee that Councillor Simon Hall had been replaced by Councillor Andrew Pelling as a Member on the Committee.

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

This item was introduced by the Head of Pensions and Treasury and the following was noted:

- The Fund was performing quite well despite the current circumstances and there was a distinction between what the markets thought and what was occurring in the real economic world that needed to be considered;
- There was, however, the reality that the world would move into recession due to the effects of the pandemic;
- The value of Assets had increased.

Councillor Hay Justice questioned what mitigations were in place as the markets did not reflect the reality of what was occurring around the world in terms of the economic climate, the Covid pandemic, and the presidential elections in America. Officers said that a strategy was in place that spread investments over a number of areas and therefore mitigated risk by diversification.

They continued to follow best advice, and constant monitoring was taking place as was the ability to react as necessary. The Investment adviser added that in terms of risks, as stipulated by Investment 101, that some had to be taken in order to generate a return and not taking any was a risk itself.

It was important that risks were taken in a managed way in areas that would result in payments on a long-term basis and ensuring that risk sources and return driver sources were spread across various different areas.

COVID had created dislocation in the markets. This dislocation would continue to be monitored for signs that the dislocations would become imbedded. The portfolio had a spread of return drivers across it, which was helpful in ensuring the Fund was well placed. Our advisers would continue to

be alive to changes going forward and how we might need to adapt the portfolio.

Members asked whether the Council issuing a Section 114 notice would affect the value of the Fund and whether members of the Committee had been interviewed by the Pensions Regulator regarding the Property transfer. The Chair stated that the Section 114 notice did not affect the Fund.

Mike Ellsmore; the Chair of the Pensions Board confirmed that he had been interviewed by the Pensions Regulator in September 2018 about the Property transfer as he had written a letter to the Section 151 Officer in 2018 raising a few areas where he thought further work was required. He confirmed he had not received any feedback from the Regulator. Councillor Hopley confirmed she had been interviewed by other outside bodies about the ratification of the decision about the Property transfer and concerns on governance. Officers confirmed that they had written to the Pensions Regulator about the Section 114 notice confirming that the arrangements of the Pension Fund were separate from the Council.

Members asked whether valuations of properties associated with the property transfer had been carried out. Officers responded that they had not got the information on this. It was commented that details of this had been requested on several occasions and there had been no details brought forward to date, there were also concerns about registration as well as completion of the legal papers.

It was agreed that a formal request for information be sent on behalf of the Committee to Officers to provide a written briefing on the Fund's position. Members highlighted further concerns about the reduced payment that was being taken from the Council as a result of the current agreement. Officers confirmed that currently the contributions paid by the Council had not been reduced and were in line with those agreed in the triennial valuation.

All Members expressed concerns about the continuing delays in resolving the Property transfer arrangement and that they wanted the situation resolved very quickly.

The Committee requested to be provided with a briefing note on the position in relation to Property Transfer which should include:

- a) The valuations of the properties included in the transfer
- b) The position regarding the legal agreement between the Council and the Fund
- c) The completion of the agreement

RESOLVED: to note the performance of the fund for the quarter.

5/20 Key Performance Indicators for the quarter ending 30 September 2020

The Head of HR Finance Service Centre introduced the report and the following was noted:

- During the period as set out in the report, the team had been tasked with increased administrative duties as well as key annual events that was expected to be delivered during the period.
- There had been increased administrative duties as a result of the Council's staffing review.
- The team had been able to keep within its legal deadlines for key life events such as retirements and deaths but there was however large outstanding tasks as a result of backlogs on deferred benefit calculations.
- A contract had been awarded to Hyman Robertson to undertake some third party administrative duties to clear backlogs, this project should commence within the next month.

Discussions took place on managing the backlog of cases and it was commented that the current caseload was increasing by 200 each month and if Hyman Robertson came in to assist with clearing of backlog there would still be an issue. It was asked what the plan was to manage this in order to come back in line with existing new cases. Officers agreed with this point, in particular in light of the fact that there were two vacancies within the administration team that was being recruited to. Resource numbers were based on the scheme as it was and it was evident that a review needed to take place to ascertain what resource was needed to deliver the administration service as the scheme was becoming more complex. The contract with Hymans was a short to medium term contract to clear outstanding work and a longer term solution must be sought. There would be agreement of KPI's on amount of cases and quality of cases cleared and sample checking of cases would take place to ensure high standards and value for money of the contract.

It was further asked what the implication of a minimal workforce in terms of meeting legal thresholds for pension administration and what the ramifications would be. Officers said that if legal deadlines were not met, there would be a breach of regulation which would need to be recorded on the breaches register. Consideration would also need to be given to the significance of the impact and whether there was a need to report to the regulator.

In light of the situation, it was suggested that it would be in the interest of the Pension Fund and members to explore the possibility of outsourcing more work where necessary. Officers said that there were providers that could support the function of clearance of backlog and due to the limited buoyant

market for trained staff the pool of permanent Local Government pension staff remained a challenging market.

Questions were raised on the CIPFA guidance and whether our report covered all areas. Officers said that a report was brought before the Committee 12 months ago and was currently still a work in progress as there was some performance monitoring frameworks that needed to be established.

Resolved: To Note the Key Performance Indicators and the performance against these indicators set out in Appendix A to this report.

6/20 Pension Fund Governance Review Action Plan

The item was introduced by the Head of Pensions Treasury who advised that the updated action plan informs the business plan and the forward plan for the Pensions Board. The headline issues contained in the report were identified as being important to ensure compliance with requirements if the governance review.

Questions were raised on what the situation was on progression of recommendations that were made in 2016, whether additional kpis as recommended by CIPFA has been added. Additionally if the data improvement plan had been completed or were on target. Officers responded that the report made reference to description of work that would be undertaken over the next three years with tasks allocated to future meetings of the Pension Committee and Board. There was a lot of work to be complete. There was also proposal being made that the Council has a named officer for LGPB. It had always been the ambition for the KPIs to be embedded once the processes were in place to collect and present data. This would still take place once Members were able to digest the information presented in a meaningful way

A Member commented that the report showed significant changes that would take time to implement such as the CIV governance structure. It was asked how quickly some of the changes could be brought forward to enable the new structures to be put in place immediately, in particular in areas where opposition Members had not had as much opportunity to consider some of the decisions. Officers said that conversations were taking place with the London CIV and the Pension Board has asked AON to assess progress against the action plan and pick up additional points that had arisen since the review. Once the review had been undertaken, the issues that had been specifically mentioned would be picked up and incorporated in future workload.

It was asked whether a business plan would be looked at and how soon this would take place as per the recommendation for one to be put in place. Officers responded that the business plan was in progress and it was to be presented to the Committee at its next meeting.

In response to a question on whether the recording of the meeting could be considered as a true reflection of the meeting alongside minutes. The Clerk advised that this was currently being looked at as technology had moved

forward. At present, printed minutes were still the only considered legal reference of the meeting.

RESOLVED: The Committee AGREED to note progress in respect of the Governance action plan

7/20 Risk Register review

The Head of Pensions and Treasury presented the report and the Committee was informed that two risks relating to Covid and the S114 Notice had been added to the register. There had been progress on moving forward on some of the other risks but the team's ability to respond had been impeded as a result of the Pandemic.

It was commented that the future of escalating, in comparison to current risk ratings on some of the entries had fallen in terms of likelihood of the events occurring and it was asked how confident officers were in the risks remaining as predicted. Officers said that a degree of optimism underpinned the entire process and that having recognised the risk and acted appropriately, future risks would be reduced due to the mitigations in place. Arrangements for financial services was put in place a while ago and would always be protected. Arrangements were also in place by banks and service providers to mitigate risks of cyber security.

It was further commented that officers must ensure that there was robust evidence in place to justify any changes made to risks.

RESOLVED: The Committee AGREED to note the contents of the Pension Fund Risk Register.

8/20 Breaches of the Law Log

The Head of Pensions and Treasury introduced the item and it was noted that there been three breaches recorded to date which were considered to be material to the extent that there was no requirement of reporting to the Pensions Regulator.

The report was being brought to the Committee to provide transparency and discharging of legal obligation on areas where there had been breaches.

RESOLVED: The Committee AGREED to note the contents of the Pension Fund Breaches Log.

9/20 Correspondence review: The Pension Regulator and Scheme Advisory

Board

The Head of Pensions and Treasury introduced the report which detailed the impact of the McLeod judgement, the £95k cap and exit payments on the administration team.

Concerns were raised that this ruling presented a situation that required identification of inactive members and the financial implications this would have on the fund, additionally the resources that was required to undertake this substantial piece of work. Officers agreed on the complexity of the issues and that there was an infinite group of staff to be identified as part of the process. There was a plan and well as resources in place to manage the process.

RESOLVED: The Committee AGREED to note the contents of the report.

10/20 Training records update

The Head of Pensions and Treasury introduced the report which detailed the training opportunities that had been identified. Members were asked to keep the team informed of any training needs they identified for themselves in order to ensure that this could be facilitated and records kept up to date.

A Member asked if there would be a system in place to ensure that there was a deadline in place for completion of induction for new members of the Committee. Officers believed that the three day training session that was offered each year provided basic understanding and knowledge required. It was however agreed that there was a need for continuous training and assessment for all Members and this was the reason for capturing details on the training log, as well as collation of views from feedback forms. There were constraints with the three day course as it was only offered once a year, in October and there was a considerable gap between appointments to the committee in May to the actual training date. It would be down to the Committee to decide how to formalise any changes.

It was asked if the team were able to check if Members were actually attending courses as it was vital to be knowledgeable in order to be able to adequately participate in meetings. Members should be reminded of their professional duty to attend courses. Officers said that there were mechanisms in place to conduct audits and they actively encouraged Members to attend.

RESOLVED: The Committee AGREED to note the contents of the report.

11/20 Pension Board report

The Chair of the Pension Board introduced the report and it was noted that going forward, the Board will focus on three main areas. They would focus on

some of the work that came out of the training session that was delivered prior to the meeting today. It was evident that the Pension fund should create distinct lines between their role as an administering body and role as employer. This would result in change in the structure of Croydon and also the Pension Fund Governance Review Action Plan as this would be watched closely going forward.

RESOLVED: The Committee AGREED to note the focus of activity of the Pensions Board.

12/20 Exit Payment Cap

The Head of HR Finance and Service centre introduced the item and the following was noted:

- The Public Sector Exit payment regulations came into force in November 2020 and restricts the payments that can be made to existing employees to £95k
- The payment includes redundancy payments and pensions training costs which arise when Local Government Pension is paid and reduced before a member's normal pension age.
- The changes affect employees aged 55 and over who were leaving on grounds of redundancy or efficiency
- The necessary changes to the Local Government Pensions scheme to implement the Cap was still out for consultation.
- The administering authorities were in a position of conflict in legislation between the Exit Cap regulations and the Local Government pensions Scheme Regulations
- The Scheme Advisory Board sought legal advice and advisors expressed opinion that the course of action that presented the least risk was to offer members the opportunity to take a deferred pension or a fully actuarial reduced pension.

In response to a question as to if other LA's were proposing the same recommendations as Croydon, officers advised that they were unsure as to what other funds had decided but the advice from the scheme advisory boards was that they should all seek to adopt the same approach in line with their advice and legal opinion.

It was asked how many staff had been affected or were likely to be affected by the situation and if there was a minimum period of time by which a pension would have to be deferred until it could be taken. Officers responded that it was possible for members to take their redundancy and then draw on pension a year later but it would be a fully actuarial reduced pension. Officers could not provide a figure on the number of staff to be affected as this would have to be looked at on an individual basis.

The complexity of the situation was echoed by all Members and the difficulties in understanding how this conflict of law would impact people and to what extent. Additionally there was a probability of this having a greater impact on women than men due to payment difference which would produce a discriminatory impact. Officers acknowledged the complexity and possible impact and said that this was why it had been recommended that the funds adopt the Government actuarial department's guidance on strain factors to avoid ending up in a position where factors that may have equalities issues were used to calculate strain costs.

RESOLVED: The Committee AGREED to:

i. Offer scheme members the opportunity to take a deferred benefit under LGPS regulation 6 or a fully actuarially reduced pension under LGPS Regulation 30(5) if the cap is breached when an LGPS member aged 55 Or over exits, whilst there is a conflict between the exit cap regulations and the LGPS regulations.

ii. Adopt the factors and calculation methodology consistent with Government Actuary's Department (GAD's) draft guidance for calculating early retirement strain factors.

13/20 Exclusion of the Press and Public

The following motion was moved by Councillor Hay-Justice seconded by Councillor Fraser 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.

14/20 Minutes of the previous meeting

The Committee agreed that the Part B minutes of the meeting of 15 September were an accurate record.

15/20 Progress Report for the Quarter ending 30 September 2020 (Part B)

The Committee considered the report of the Head of Pensions and Treasury that detailed the commercially sensitive context of the performance of the Pension Fund over the quarter to the end of September 2020.

RESOLVED: The Committee AGREED to note the report.

The meeting ended at 1.08 pm

Signed:

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Date:

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