Pension Committee

Meeting held on Tuesday, 17 September 2024 at 10.00 am in Council Chamber, Town Hall, Katharine Street, Croydon CR0 1NX

MINUTES

Present: Councillor Callton Young OBE (Chair);
Councillor Patricia Hay-Justice (Vice-Chair);

Councillors Simon Brew, Clive Fraser, Yvette Hopley, Karen Jewitt and Alasdair Stewart

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

Also Present: Councillor Stuart Collins (Online), Matthew Hallett (Head of Pensions and Treasury), Gillian Phillip (Pensions Manager), Charles Quaye (Finance Manager)(Online), Mike Ellsmore (Chair of Pension Board)(Online), Jane West (Corporate Director of Resources & S151 Officer), Ian Talbot (Pension Fund Investment Manager), Robbie Sinnott (Mercer), Daniel Turner (Mercer)

PART A

147/24 Minutes of the Previous Meeting

The minutes of the meeting held on Tuesday, 11 June 2024 as an accurate record subject to the following amendment being made:

- The correction of any reference to the Head of Pensions and Treasury as the Acting Head of Pensions and Treasury.

148/24 Disclosure of Interests

The Committee agreed that their register of interest forms was up to date.

149/24 Urgent Business (if any)

There were no items of urgent business.

150/24 Review of LGPS Fund Valuations as at 31 March 2022 by Government Actuary's Department

The Head of Pensions and Treasury introduced the item and explained that the Government Actuary Department report was conducted under section 13 of the Public Service Pensions Act 2013. The Head of Pensions and Treasury informed the Committee that the report was essentially a health check of the 87 LGPS funds, to ensure that valuations were compliant with regulations, showed consistency and it was also a check on the solvency and long-term cost efficiency of the scheme.

The Head of Pensions and Treasury stated that the Government Actuary Department tried to standardise the assumptions that were applied across the LGPS funds as all the actuaries used varying assumptions when they did valuations.

The Head of Pensions and Treasury stated that the aggregate funding position, under the Government Actuary Department's assumptions, came out as 119% funded, which was considered an excellent result.

The Head of Pensions and Treasury explained that there were three recommendations from the Government Actuary Department, the first recommendation was in relation to greater consistency; the second recommendation was in relation to emerging issues and greater consistency on climate risk and the third recommendation was in relation to more guidance being provided by the Scheme Advisory Board (SAB) for funds which were in surplus.

The Head of Pensions and Treasury informed the Committee that Croydon's results for 2022 on the SAB standard basis, the funding position was just under 110% funded which would place Croydon 58th in a comparison amongst the 87 LGPS funds. The Head of Pensions and Treasury stated that in 2016 the funding position was 81% funded which placed Croydon at 81st of the 87 LGPS funds, this showed that there had been demonstrable progress made by the fund.

The Head of Pensions and Treasury explained that the Fund had been given a green rating on solvency measures, the only slight issue was with the Fund's long term efficiency measures where it was given a white rating was an advisory flag. The Head of Pensions and Treasury stated that his was due to the contribution rate decreasing mid valuation.

In response to questions from Members officers informed the Committee that:

- There were four main actuarial firms in the LGPS and officers were unaware of them moving towards a more standardised service.
- Most LGPS funds used the same actuary as Croydon.
- Officers believed that it was not advisable that every fund used the same actuary as each fund had a different maturity profile and it may also lead to capacity issues for the actuary.
- Officers were looking at collaboration with other London funds in view of the call for evidence that the government had requested and to reduce costs, so if it could save the fund money on the actuarial side then it would be considered.

- The Government Actuary Department report was a health check to make sure that the Fund was consistent with the other LGPS funds. If there any major flags raised then officers would be concerned, however, following conversations with the actuary they had no issues with anything that came out of the report.

Resolved:

1.1 To consider and note the provided by the Government Actuary's Department of their review under Section 13 of the Public Service Pensions Act 2013 of LGPS fund valuations as of 31 March 2022.

151/24 Croydon Pensions Administration Team Key Performance Indicators for the Period May 2024 to July 2024

The Pension Manager introduced the item and explained that the report covered the administration team's KPI's for the period May to July 2024.

The Pension Manager stated that as this period covered the summer months, a lot of the team and employers were on annual leave; the team were mainly focused on finalising their end of year update to produce their annual benefit statements and the care revaluation.

The Pension Manager informed the Committee that the team continued to perform well on most of their KPI's, the leaver calculations were still below average, but the team had been able to work on the more challenging leaver calculations which they were unable to perform by bulk calculations.

The Pension Manager explained that the team had been able to go out and meet with some of the Fund's employers to make presentations on the member self-service system. The Pension Manager stated that the team had received really good feedback from the attendees, and they had held some sessions with other teams within the Council as well.

The Pension Manager informed the Committee that the team had also been working with the payroll team to improve the Oracle payroll system, and they hoped to see benefits from this with improved data coming through on their reports.

The Pension Manager explained that they had started their user acceptance testing for the new Member self-service Portal and they hoped to go live with the portal in October.

In response to questions from Members officers informed the Committee that:

- During the summer period they had allocated one member of the team each week just focus on leaver calculations to continue chipping away at it. Members of the team had been handed final salary cases as they could not use automation to run those processes. The work had taken slightly longer this summer because they needed to get information from schools, employers who were also on leave.

- The team had conducted a review last week and had seen an uptick in the number of cases that they had been able to do since the start of September, so they were confident that they could level out the leavers before the valuation next March.
- The team had been on several workshops with Heywoods, the software provider, about automation. There was a lot that the team wanted to implement, but it would require the member self-service portal, so the plan was to implement the portal first and then coincide it with the changes needed for their workflow processes to fit with the new KPI reporting requirements for the annual report.
- The team wanted to use more of the capabilities of the software around automation to try and process the more standard cases, and Heywoods were looking into aggregation which was a key area for the team.
- Annual benefit statements were published before the 31st of August, and they had 100% for their active cases and just under 96% in total if they included their deferred cases. This was an improvement on last year where they had 100% for actives cases and just over 90% for deferred cases.

Resolved:

1.1 To note the Key Performance Indicators and the performance against these indicators set out in Appendix A to this report.

152/24 Review of Breaches of the Law

The Head of Pensions and Treasury introduced the item and explained that Officers had added the annual benefit statements as a breach because they did not do 100% in total. Officers had completed 100% active member cases, but the total overall was 96%, which is why it was recorded as a breach despite the figure being an improvement on the previous year.

The Head of Pensions and Treasury informed the Committee that two items had been removed from the list that they brought to Committee; however, they were not removed from the breaches log. The Head of Pensions and Treasury explained that officers stopped reporting breaches to Committee after three years or if they had been resolved. Officers have stopped reporting the breach relating to the fact that they missed the 100% on the annual benefit statements for 2021, and they also removed the item where they reported the Council's discretion policy which was now active.

The Head of Pensions and Treasury stated that the new government had proposed secondary legislation which required a backstop to be put in place by the 13th of December 2024.

The Head of Pensions and Treasury explained that they would have to have the accounts finalised for up to 2022/23 by the 13th of December. Officers were aiming to produce and publish the 2021/22 and the 2022/23 accounts by the end of October. The Head of Pensions and Treasury stated that officers would then aim to produce the 2023/24 annual report and accounts by the 30th November.

The Head of Pensions and Treasury informed the Committee that they were expecting auditors to sign off on the 2019/20 accounts with an opinion and for the 2020/21 to 2022/23 accounts, they expected the auditors to issue a disclaimed opinion. The Head of Pensions and Treasury stated that the auditors would then audit the 2023/24 accounts for the pension funds, and the backstop said that the date for publishing those accounts would be the 28th of February 2025; officers expected to receive at the modified audit opinion.

The Head of Pensions and Treasury explained that the reason why the auditors could not provide a clean audit opinion on the 2023/24 accounts was because they wouldn't have audited the previous year’s accounts.

The Head of Pensions and Treasury informed the Committee that they had moved the December Pension Committee meeting forward to the 3rd December because the auditor needed to give the accounts a disclaimed opinion. Officers would present the accounts up to 2022/23 to the Committee in December.

In response to questions from Members officers informed the Committee that:

- The risk of not having audited accounts was low to the pension fund, as the majority of the pension fund was really an asset statement.
- The auditors would audit the 2023/24 opening balance, the closing balance of the 2022/23 accounts, to enable them to audit the 2023/24 accounts property.
- Investment advisors tracked investments quarterly.
- Once the situation with the outstanding accounts had been managed, the reputation could begin to be rebuilt.
- At the Audit & Governance Committee in March, Grant Thornton reported they were happy with the accounts for 2019/20. The accounts then needed to go to the powers that be in order to be finally agreed and so that the final statements can be completed. Officers were still waiting for the accounts to come back from Grant Thornton, so without the backstop the accounts would never get out this cycle.
- The Council had offered pushback as they had a lot of reputational risk and having disclaimed accounts would not be helpful and it would be better for the accounts to be signed off properly. The Council was yet to receive a comment from the government in relation to this but given the way that the Ministers letter was worded in July it was clear that there would be no dispensations. However, despite the 13th of December deadline the legislation was not in place, so officers were still slightly unsure of what the legislation was going to say.

- When they started the audit of the 2020/21 accounts with Grant Thornton, it became apparent from the Council's main accounts that their sample sizes had gone up and officers were being asked enormous numbers of questions which became unmanageable. This was because Grant Thornton felt that the Council had to have much bigger samples because they were such high risk which made the whole audit quite unmanageable.
- The Council were very fortunate to have Grant Thornton's services because the other auditors were struggling even more than them.
- Tendering was done through Public Sector Audit Appointments (PSAA), the Council did not directly contract Grant Thornton it came through a panel.
- This was a sector wide issue for local government driven by an international issue for auditing firms.
- The proposed removal of £100 million from the Pension fund to purchase properties was not actioned and all of the Croydon Affordable Homes issues had been sorted out. The Kroll report was still with the metropolitan police and the Council had not received a formal response back from Metropolitan Police. This was the March report from Grant Thornton was a disclaimed report for the 2019/20 accounts because of the fact the Kroll report was still with the Metropolitan Police.
- Officers were hopeful that there would be progress made with the 2019/20 accounts and they would be signed off soon.
- The intention was to produce the accounts up to 2022/23 and have them published by the 31st October, this would give time for the public inspection and this was independent of what happens with the Council's accounts. The 2023/24 accounts would be published by the 30th November.
- The 2021/22 and the 2022/23 accounts would be brought to the December Pension Committee meeting.
- The annual benefits statement was not removed from the actual log, it had stopped being reported to Committee. After three years officers decided to remove any items that were still on there.

Resolved:

1.1 To review and note the contents of the Pension Fund Breaches of the Law Log.

153/24 Review of Risk Register

The Head of Pensions and Treasury introduced the item and explained that officers had added two risks to the risk register, officers had slightly modified a risk in relation to the levelling up agenda however since the change in government this risk was on hold.

The Head of Pensions and Treasury informed the Committee that risk 18 on the register related to more reporting requirements for the annual report. these are. The Head of Pensions and Treasury stated that this would add to the teams' pressures in terms of resourcing and keeping up to date with being able to report on those items.

The Head of Pensions and Treasury explained that risk 17 was in relation to investments going forward and the government's view on more consolidation and looking at mergers with other funds. The Head of Pensions and Treasury stated that their external legal advisors believed that if this was to come to fruition, it would have major legal implications.

The Head of Pensions and Treasury informed the Committee that the government issued a call for evidence on the 4th September, this posed 10 questions in relation to defined contribution and local government pension schemes. The Head of Pensions and Treasury stated that whilst there were 10 questions, only five were related to the LGPS.

Robbie Sinnott stated that the government had either mentioned directly or referred to things that would impact the LGPS quite frequently. Robbie Sinnott explained that the first thing the government did was change the name of the department, so it was no longer referred to as Department for Levelling Up, Housing and Communities (DLUHC) it was now the Ministry of Housing, Communities and Local Government (MHCLG).

Robbie Sinnott explained that Mercer had discussed with their colleagues in Canada about their approach and found that they were having similar conversations to the LGPS about trying to get Canadian pension schemes to invest more in Canada.

Robbie Sinnott stated that the new government had a similar agenda to the previous government, however they had more urgency and were promoting more pooling and consolidation in an attempt to drive the LGPS to invest in UK assets.

Robbie Sinnott explained that there was a pensions review, with regards to the LGPS it was highlighted that it was going to tackle fragmentation and inefficiency through consolidation and improved governance and focus on outcomes rather than costs.

Robbie Sinnott believed that this was slightly unfair on the LGPS who overall had focused more on outcomes rather than costs, and if there had been a focus on cost it that had potentially come from statements made by the government.

Robbie Sinnott stated that in order to assess how successful the LGPS asset pooling had been they had to look at the initial aims of pooling which was to drive down costs and to increase investment in other asset classes, specifically infrastructure that were more difficult for LGPS funds to access. Robbie Sinnott informed the Committee that there was evidence that the pooling had driven down costs, and the fund was consistent with all other funds as it had larger allocations to private markets, private debt, infrastructure and private equity which was seen across the board.

Robbie Sinnott stated that in regard to the government encouraging pension schemes to increase their investment budget and take on more risk so that it can invest in higher return in asset classes to encourage more investment into private equity or infrastructure, there needed to be some consideration towards the pension funds primary duty right which was to meet the members benefits. Robbie Sinnott believed that it was important to establish who was under-writing the risk and who was getting the benefit of any need to take on more risk.

Robbie Sinnott stated that there was no proof that consolidating the LGPS would mean that more assets would flow into the UK and they should focus on incentivising people to invest in the UK as opposed to pushing them to invest in the UK.

Robbie Sinnott explained that whilst the LGPS had a higher allocation to UK equities than the private sector, there had been reduction in its allocation into UK equities overtime. Robbie Sinnott stated that most pension funds now took a global approach to investment.

Robbie Sinnott informed the Committee that across Mercers LGPS base, their clients had committed over £4 billion of assets in the UK over the last five years. Robbie Sinnott stated that a lot of those commitments would have been supporting government agendas such as investments in renewable infrastructure in the UK.

Robbie Sinnott explained that LGPS funds had started to make local investments which promoted local and regional growth and there were also funds who had been doing it outside of pooling as well.

Robbie Sinnott stated that Mercers view was that the best course of action was to try and be constructive with the government proposals rather than being too combative against it.

Robbie Sinnott explained that the LGPS employer contribution rates were low in comparison to other public sector pension schemes, and it was significantly lower than some of the unfunded public sector schemes.

Robbie Sinnott stated that Mercer would share their response with the Head of Pensions and Treasury when it had been finalised and it would be published on their website as well in June 2025.

In response to questions from Members officers informed the Committee:

- Officers had assessed their resourcing and were in the process of transferring some of the positions in the team around. The previous structure of the team was not fit for purpose and there were some governance positions which would be advertised once the job description had been finalised. There was one admin role vacant and

there was also agency staff who will need to be replaced on a permanent basis eventually on the investment side of the team.
- In terms of succession planning, there was a limited pool of individuals and there had been discussions amongst the LCIV and the Society of London Treasurers about the lack of available resource across London. This was an area of focus in order to make the department more resilient and ensure that it had access to resources. The LCIV would provide more resourcing on the investment side.
- The LCIV had provided the last three training sessions for Members before Committee.
- There was a project going on which was being led by another Borough which looked at the admin and governance functions regarding consolidation.
- Officers were starting to look externally for support and seeing how they could work with other London funds.
- In the structure that was currently in place there were positions which did not have any job descriptions behind them, this was a historic issue. Officers had to make sure that they had the right job descriptions to go with those positions, this would take some time as it needed to go through HR procedures.

Councillor Hopley stated that it would be interesting to have an individual from the LCIV attend a meeting to present on infrastructure and other asset classes that they were considering.

Resolved:

1.1 To review and note the contents of the Pension Fund Risk Register.

154/24 Review of Representation Policy

The Head of Pensions and Treasury introduced the item and explained that the representation policy was brought about by the SAB’s good governance review. The Head of Pensions and Treasury stated that the fund introduced a representation policy 23rd September 2023, which officers had now updated.

The Head of Pensions and Treasury informed the Committee that the changes had been brought about as officers had updated the Constitution to reflect that one staff side member will now be voting. The Head of Pensions and Treasury stated that they would be appointing a non-voting employee representative from outside of the Council to the Committee.

The Head of Pensions and Treasury explained that officers were looking at the EDI implications would make sure there was fair representation.

In response to questions from Members officers informed the Committee:

- The trade union member was now a voting member of the Committee as from February 2024, when the Constitution was updated. Officers were working on the equality's implications for the appointment of the employer representative.

Resolved:

1.1 To review and agree the revised Representation Policy.

155/24 Local Government Pension Scheme Advisory Board / The Pensions Regulator Update

The Head of Pensions and Treasury introduced the item and explained that the report presented the Committee with the updates from Scheme Advisory Board and the Pensions Regulator. The Head of Pensions and Treasury highlighted updates such as the change of government and the call for evidence as well as other updates which were considered during earlier agenda items such as the section 13 report.

Resolved:

1.1 To agree to note the contents of this report.

156/24 Part A Progress Report for the Quarter Ended 30 June 2024

The Head of Pensions and Treasury introduced the item and explained that Pension fund increased by just under £48 million and returned 1.87% over the quarter.

The Head of Pensions and Treasury informed the Committee that the assumption in the valuation stated that the fund assumed to return 9.2%, the fund had now returned 10.4% since the valuation date which meant that they had a positive effect in terms of the funding level.

The Head of Pensions and Treasury stated that officers had updated the Hyman's tool that they used to track the funding level, at the end of March the funding level was at 126% and at the end of June it stood at 132% percent. It would currently require an asset return of 4.3% to be 100% funded.

The Head of Pensions and Treasury explained that in April they moved £100 million from the LGIM Global equity fund to the LCIV Multi Asset Credit fund, this went smoothly, and officers had now rebalanced the portfolio.

The Head of Pensions and Treasury informed the Committee that they were closer to their balance target allocation in terms of fixed interest, they stood just below 20% and the target allocation was 23%.

The Head of Pensions and Treasury stated that at the last committee meeting they agreed to transfer the Aberdeen Standard Life corporate bond holdings and the Wellington corporate bond holdings to the new LCIV All Maturities Credit Fund, the launch of this fund was delayed, and the launch was now set to take place on the 9th October, so those funds would be moved across.

The Head of Pensions and Treasury stated that following discussion during the last Committee meeting about employing a transition manager, officers looked at the underlying holdings in the Wellington Fund and the underlying holdings in the Standard Life Corporate Bond Fund and found that there wasn't enough crossover to warrant the transition. The Head of Pensions and Treasury stated that officers decided that the best option is just to sell down those assets and invest in the new fund.

The Head of Pensions and Treasury explained that by going into the funds on the launch date, they would save on the dilution levy that the LCIV applied, which would save on costs.

The Head of Pensions and Treasury informed the Committee that whilst they had agreed to transfer across the Absolute Return Fund across over a year ago, officers had delayed the transfer because the fund had performed better than the other bond funds over the past year. The Head of Pensions and Treasury stated that they would now be looking to move the fund across in stages with a target date of the 31st of March 2025, which was in line with the government's expectations and ahead of a lot of other funds.

The Head of Pensions and Treasury informed the Committee that he had a meeting with Access Capital Partners on the 6th November, and as he knew Committee were keen to go out and meet the fund managers again he offered an open invitation to Committee Members.

Resolved:

1.1 To note the contents of the report.

157/24 Exclusion of the Press and Public

RESOLVED that members of the Press and Public be excluded from the remainder of the meeting under Section 100A(4) of the Local Government Act 1972 on the grounds that: (i) it involved the likely disclosure of exempt information as defined in Paragraph 3 (Information relating to the financial or business affairs of any particular person (including the authority holding that information)) of Part 1 of Schedule 12A of the Act: and (ii) that the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

158/24 Part B - Progress Report for Quarter Ended 30 June 2024

RESOLVED that members of the Press and Public be excluded from the remainder of the meeting under Section 100A(4) of the Local Government Act

1972 on the grounds that: (i) it involved the likely disclosure of exempt information as defined in Paragraph 3 (Information relating to the financial or business affairs of any particular person (including the authority holding that information)) of Part 1 of Schedule 12A of the Act: and (ii) that the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

159/24 Part B - Responsible Investment Total Evaluation

RESOLVED that members of the Press and Public be excluded from the remainder of the meeting under Section 100A(4) of the Local Government Act 1972 on the grounds that: (i) it involved the likely disclosure of exempt information as defined in Paragraph 3 (Information relating to the financial or business affairs of any particular person (including the authority holding that information)) of Part 1 of Schedule 12A of the Act: and (ii) that the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

The meeting ended at 12.36 pm

Signed: ....

Date: ....