

Pension Board

Meeting of held on Thursday, 18 October 2018 at 2.00 pm in F10 - Town Hall

MINUTES

Present: Michael Ellsmore (Chair)
Richard Elliott
Teresa Fritz
Ava Payne
David Whickman
Councillor Maggie Mansell

Also present: Nigel Cook, Head of Pensions and Treasury
Annette Wiles, Secretary

PART A

40/18 Minutes of the Previous Meeting

The minutes of the previous meeting on 5 July 2018 were agreed as a true and accurate record. The only amendment to be made was the incorrect spelling of David Whickman's name on page 5 of the agenda pack.

The only matter arising concerned the housing transfer which it was agreed would be picked up elsewhere on the agenda.

41/18 Disclosure of Interests

Cllr Mansell declared an interest as a Croydon Councillor in the proposed housing transfer.

42/18 Urgent Business (if any)

There were no items of urgent business.

43/18 London CIV

An update presentation was provided by Kevin McCallum, (Client Relations Director). This covered the following points:

- Comparing the pool in which Croydon is operating with other LPGS pools;
- The total of Assets Under Management (AUM) is now £36 billion;
- The Government rules have allowed investments in life companies to be retained;

- Most schemes are reducing their equity weighting in favour of low carbon tracker funds;
- Croydon is joining with emerging markets via a Janus Henderson fund;
- Fixed income funds have launched and are seeing big inflows;
- A global bond fund is now available. Croydon will be the seed investor;
- The savings generated by the CIV are now exceeding its running costs with acknowledgement of the need to manage costs;
- A new governance framework for the London CIV has been agreed;
- The CIV is in the process of consulting with all London boroughs on their requirements to be able to build what London needs;
- In total, 60% of Croydon's assets are now pooled;
- A new reporting/client portal has been launched allowing daily review;
- The search has started for a new permanent Chief Executive with the recruitment of a new Chief Investment Officer to follow;
- Two new business analysts have been recruited allowing for the provision of more timely information;
- Two borough leaders have joined the CIV board;
- The CIV and its employees are FCA regulated;
- The Government is in the process of clarifying the guidelines on pooling. This will include a consultation;
- Future developments include two fixed income funds launched recently, a focus on inflation protection strategies and property interests especially UK property. But there is still a gap in global equities which is a core offering; and
- A responsible investment policy has been drafted and needs to be ratified.

In response to Board member questions, it was clarified:

- Diversification is built into funds to achieve a stable return on sums invested;
- The shareholder committee comprises eight Councillors and four treasurers. This is a consultative group that encompasses a wealth of relevant experience but whose members are non-voting;
- The chair of each borough's Pension Committee can vote to determine how the CIV works. Non-executive directors are nominated by the shareholders. These take an independent view based on industry experience; and
- Sign-up to the disclosure of costs is in place for all but one fund.

The Board highlighted that unions should have a role on the non-executive board with voting rights as they are key stakeholders. Additionally, that there should be more diversity on the executive board.

RESOLVED: The Board noted the presentation and gave its thanks Kevin for the information provided highlighting that the success of the pool is everyone's success.

Forward plan

In response to a Board member question the Head of Pensions and Treasury, clarified:

- The housing transfer proposal is about making the borough's assets work harder. The borough has been buying up properties in light of housing crisis and now has a total of 96. The proposal being considered is to use these for the benefit of the pension fund to help bridge the funding gap. This would mean a break clause in leases after a 40 year period allowing the properties to be gifted to the pension fund. As a result, the pension fund would be £140m better off in current terms in 40 years' time. This would allow pension contributions to be managed in a more affordable manner. These employer contributions are currently 24.1%; and
- The borough is getting professional advice on the proposal (Croydon is not the first borough to do this). The meeting of the Pension Committee on 5 June 2018 outlined the proposal, looked at the options and described the risks. As a result, the Committee delegated the authority to Richard Simpson, Executive Director of Resources, to seek specialist legal advice. This is being taken from public sector legal experts, Browne Jacobson. The Committee is seeking feedback from the Board regarding its views on these arrangements.

In response to Board member questions, it was clarified that:

- This is about Croydon resolving its deficit and doesn't affect the rest of the fund;
- This is a promise of holding assets in the future; the management of these properties until this point will be covered by the affordable housing company; and
- It is hoped to ask the Council for a resolution in January 2019.

Board members made the following key points:

- There is need to ensure this benefits the pension scheme. Arrangements need to be put in place in case the value of the properties declines rather than increases;
- Conflicts of interest need to be addressed and monitored going forward;
- Advice is needed although it is noted that the investment strategy of the pension scheme is positive about property;
- Regular updates would be required from the administrator; and
- The Board requested that it would have the opportunity to consider the proposal in detail before any decision is made.

In terms of the Board's work programme, its desire to have training (possibly with the members of the Pension Committee) on climate change and its effect on investments was noted. A request for additional information about the Government Actuary Department Section 13 report was made. The Head of Pensions and Treasury clarified that this will come to the board at its January meeting.

It was noted that Teresa Fritz is now a member of the Pensions and Lifelong Savings Association Policy Board by virtue of being a member of the Pension Board.

It was clarified that reappointment to the Pension Board is at the gift of the Executive Director of Resources in his capacity as the scheme administrator and currently there is no need for this to be refreshed – the benefit provided by stability was noted. Terms of reference for the Board will be reviewed at the July meeting.

RESOLVED: to seek more information on the property transfer to allow the board to comment further before this decision is taken by Council.

45/18 **LGPS governance updates**

Head of Pensions and Treasury outlined the difficulties of the Government Actuary Department's Section 13 report. Specifically, how valuations used for this purpose are out of step and that currently the Croydon scheme is 72% funded but according to the Government's assessment this is 82% funded.

RESOLVED: the Board noted the report and highlighted the importance of the separation between the Pension Board and Committee.

46/18 **Key performance indicators**

Head of Pensions and Treasury reported that Dave Simpson, (Pensions Administration Manager), is leaving. The difficulties with recruitment were noted and that it is hoped recruiting for more than one post at the same time will be beneficial. It was also highlighted that recent recruits to the administration team have been in post long enough to have better knowledge of the LGPS scheme which is making a big difference. It was noted that the difficulties recruiting are global and not only being experienced by Croydon.

It was noted that the cases backlog is coming down.

RESOLVED: the Board resolved to note the report, put on record its thanks to David Simpson, suggest that Vicky Richardson, Head of Finance Service Centre attend meetings of the board from now on and to check that there isn't a backlog in new cases building up.

47/18 **Risk register**

Head of Pensions and Treasury highlighted that high value risks go to the Committee. As a result 3.4 has been deescalated as this has been addressed by the Committee. Currently the most significant risk is 3.5.

In response to a Board member question, Head of Pensions and Treasury clarified cyber security is not scoring sufficiently highly to be considered a major risk but does feature on the more comprehensive version of the register.

RESOLVED: the Board noted the report.

48/18 **Investment strategy statement review**

It was noted that there is a new investment strategy statement inclusive of manifesto statements on inward investment, green investments and that exclusion of investments in tobacco. Head of Pensions and Treasury highlighted the need to align this with the approach being taken by the London CIV.

RESOLVED: the Board noted the report.

49/18 **Progress report for quarter ended 30 June 2018**

It was highlighted that the scheme is regularly achieving 8% over the long term. However, Head of Pensions and Treasury noted that it is overexposed in equities. A shift will be made to emerging markets by 6 November 2018. Additionally, an investment of £140m in to a new fixed interest fund through the CIV will be launching later in November.

RESOLVED: the Board noted the report.

50/18 **Pension fund annual report**

Head of Pensions and Treasury confirmed that the scheme has a positive cash flow – more is coming in than the scheme is paying out in benefits. The deficit contribution has been paid upfront meaning there is a discount on this causing a shortfall of a few million. The property transfer scheme will have an impact on cash flow – it will become negative. The auditors had nothing to comment on regarding their audit of the Pension Fund accounts.

In response to a Board member question, it was clarified that the discount applied for prompt payment is decided on assumed return.

RESOLVED: the Board noted the report.

51/18 **Exclusion of 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.

52/18 **Progress report for quarter ended 30 June 2018 (restricted)**

RESOLVED: the Board noted the report with the main points having been addressed elsewhere on the agenda.

53/18 **Review of fixed income portfolio (restricted)**

RESOLVED: the Board noted the report.

The meeting ended at 4.00 pm

Signed:

Date:

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