

## **Pension Committee**

Meeting held on Tuesday, 11 February 2020 at 10.00 am in Council Chamber, Town Hall, Katharine Street, Croydon CR0 1NX

### **MINUTES**

- Present:** Councillor Andrew Pelling (Chair);  
Councillors Simon Brew, Robert Canning, Clive Fraser, Yvette Hopley and Robert Ward  
Co-opted Members: Gilli Driver, Peter Howard and Charles Quaye
- Also Present:** Nigel Cook (Head of Pensions and Treasury) and Lisa Taylor (Director of Finance, Investment and Risk (S151 Officer))
- Apologies:** Councillors Simon Hall and Patricia Hay-Justice

### **PART A**

#### **11/20 Minutes of the Previous Meeting**

The minutes of the meeting held on 7 January 2020 were agreed as an accurate record.

Members asked that the minutes published online from 7 January 2020 be checked to ensure that they were the same correct version.

#### **12/20 Disclosure of Interests**

The Chair, Councillor Pelling, noted the relationship between the triennial evaluation, the level of contributions paid by the Council to the Pension Fund and the level of Council Tax paid by residents in Croydon thus creating an interest for Members in setting the Council's budget. It was therefore noted that Councillors had such an interest. The two pensioner representative members also declared that they were in receipt of a pension from the Fund.

#### **13/20 Urgent Business (if any)**

There were no items of urgent business. The Chair thanked Democratic Services officers for the exceptional effort that had been made since early hours to deal with logistical challenges that had arisen for the conduct of the meeting.

#### **14/20 Governance Review - London Borough of Croydon Pension Fund Action Plan**

Members received and reviewed the Action Plan produced in response to the Governance Review of the Pension Fund. This had been commissioned by the Pension Board and conducted by Aon Hewitt. The Head of Pensions and Treasury introduced the item noting that the Action Plan addressed every review finding with a responsible officer allocated for the delivery of action on each item.

The Chair noted the request by Members for there to be more meetings of the Pension Committee and training provided. Both requests were accepted. Meetings were to increase from four to six a year and Members would receive training linked to the recommendations of the Governance Review.

The Independent Chair of the Pension Board was invited to provide some context to the Governance Review. It was noted that not all Funds undertake an independent review and therefore the Independent Chair congratulated Croydon for having taken this step. It was highlighted that whilst there were opportunities for development and improvement, the review had shown there was lots being done well. The Pension Board had welcomed the detailed Action Plan made in response to the review although clarification was sought on what resources would be allocated for this to be fulfilled.

The Independent Chair emphasised the treatment of conflicts of interests and the need for clear blue water. In the light of this, the Independent Chair asked if it was sufficient for this to be covered by reference made to conflicts of interests included in the Council's Constitution. As an illustration it was described how there might be conflict for Members around the rate of Council's contributions to the Fund and wanting this to be as low as possible in order to benefit the Council's overall budget. The Independent Chair stressed that conflicts were not untoward but that they needed to be managed. Lastly, it was noted that the Secretary to the Local Government Pension Scheme Advisory Board had indicated the desire to make governance reviews mandatory.

The Director of Finance, Investment and Risk (Section 151 Officer) addressed the issue of resourcing to fulfil the Governance Review action plan. It was explained that the action plan had been carefully considered and a realistic approach taken with activity timed to happen over the full three years until the next review would be undertaken. Officers would provide the Committee with an update report on the implementation of the action plan every 12 months. (This was slightly different from the recommendations as noted in the report which the Committee agreed would be updated.) It was described how the updates on the Action Plan would be open and honest with transparency on any slippage and the reasons for this provided. It was noted that there continued to be some vacancies in the pension team but that the recruitment process was continuing.

It was confirmed that the Action Plan would be taken to the Pension Board and that the Pension Committee would receive an item on conflicts of interest within 12 months.

With regard to the context for the governance of the Fund, the Head of Pensions and Treasury explained that the Pension Regulator's remit was extended to include all public schemes from April 2019. It was therefore reasonable to expect some changes to the governance requirements that were expressed through Code of Practice 14.

The Chair explained how it was important to the governance of the Fund that the decisions of the Committee should be followed and that this needed to be reasserted. This was agreed by the Committee.

In response to a Member question, the Director of Finance, Investment and Risk (Section 151 Officer) clarified that only Aon Hewitt had access to the responses to the survey underpinning the Governance Review. There was confidence Aon Hewitt would have reviewed all of the comments made before these had been summarised in its report. Aon Hewitt was not at the meeting because the item was to consider Croydon's Action Plan made in response to the findings of the review.

In response to a further Member question, the Director of Finance, Investment and Risk (Section 151 Officer) stressed that, as already agreed, the Committee would receive an item on conflicts of interests within 12 months and that the Monitoring Officer would be consulted as part of this work. Reassurance was provided that the action plan contained delivery dates and detailed when action was required to be taken by the Pension Board. It was described how time had been spent going through the recommendations contained in the Governance Review with prioritisation made (although it was acknowledged that some changes to the action plan may result from events over time). The Independent Chair of the Pension Board expressed his preference for a separate provision outside the Council's Constitution to encompass the treatment of conflicts of interests, describing as good governance the separation between the Council's role as the scheme's administrator and lead employer.

A Member questioned the voting rights assigned to the Members of the Pension Committee (with specific reference made to the fact that the employee representative was non-voting). It was noted by the Independent Chair of the Pension Board that Croydon was unusual in having given voting rights to Committee Members who were not Councillors but that having another employer on the Pension Committee might be considered. It was agreed to add to the Committee's work programme consideration of the Committee's make-up and voting rights. A review of the make-up of the Committee would be undertaken.

There was discussion of the comments in the Governance Review regarding the challenge posed by the knowledge and skills needed to be an effective Member of the Pension Committee. Concern was expressed about the turnover in Members and the risk this posed in terms of undermining the expertise of the Committee. Members suggested the need to write to those responsible for making appointments in both Groups to recommend the need for consistency. Councillor Fraser, in his capacity as the Group Whip for the

Administration, agreed the point was well made and that this would be highlighted.

**RESOLVED:** The Committee resolved to AGREE the report with the following revisions/additions:

- i. An update on the implementation of the action plan will be provided to the Pension Committee every 12 months;
- ii. The Pension Committee will receive an item on conflicts of interests within 12 months of the meeting;
- iii. The need to follow/implement the decisions of the Pension Committee was reasserted; and
- iv. An item to give consideration to representation and voting rights would be added to the Pension Committee's work programme.

## **15/20 Update on Triennial Actuarial Valuation**

*The Director of Finance, Investment and Risks left the meeting to attend to other Council business at 10:38am.*

A presentation on the triennial actuarial valuation was provided by Robert McInroy the Scheme Actuary (Hymans Robertson LLP). The key points covered included:

- i. The triennial actuarial valuation was required in legislation and in effect acted as a health check to ensure the contribution rates and the Funding Strategy Statement were correct. Essentially this was to check that the value of the assets of the Fund were sufficient to cover the estimated liabilities (the costs of member benefits);
- ii. The health check was conducted based on a snap shot of the Fund on 31 March 2019;
- iii. The position as a result of the valuation was positive with the Fund having moved from 73% to 88% funded;
- iv. In undertaking a new valuation, it allowed changes that had occurred since the last valuation in 2016 to be taken into account. The impact of the slowing down in the growth of life expectancy and pension increases were given as illustrations of changes to the actuarial assumptions that had impacted on the triennial valuation;
- v. The length of the Fund's liabilities meant it was important to attempt to get the best estimate with regulations requiring a prudent approach be taken. It was also necessary for the triennial valuation to show the likelihood of the Fund achieving investment returns over a number of years;
- vi. The valuation included a variety of different circumstances with illustrations of the effect on the Fund including different levels of inflation; and
- vii. Information allowing comparisons to be made against the performance of other funds would be published in 2021.

## **16/20 Exclusion of the Press and Public**

The following motion was moved by Councillor Pelling and seconded by Councillor Hopley 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.

## **17/20 Update on the Triennial Actuarial Valuation (Part B)**

*Councillor Ward left the meeting for another meeting at 11:15am.*

The Head of Pensions and Treasury described how a meeting had been held with the other scheme employers with only eight attending. They had received a similar presentation from the Scheme Actuary and had the opportunity of an individual meeting to discuss specifics. The lack of engagement from academy trusts was noted. Rather it was those with a smaller number of employees that attended (because they were more likely to be subject to variations). The employer meeting was described as being positive and had gone well which was ascribed to a decline in the contribution rates and demonstrated some peace of mind. It was noted that the Council was the largest employer accounting for 85% of the Fund. All employers were being consulted on the Funding Strategy Statement with the outcome of this exercise to be shared with the Committee at its meeting on 17 March 2020 for its approval.

The Scheme Actuary recommended a cautious approach to setting the new rate of contributions; that it was better to nudge these in the right direction and not to overreact to short term events. It was therefore being recommended to keep the contribution level the same for one year with reductions over the subsequent two years. This was described as a risk adverse strategy which would achieve the objective of protecting the Fund.

In response to a Member question, the Head of Pensions and Treasury reported that how the Property Asset Transfer was to be accounted for was still under discussion. However, it was also stressed that given the size of the Fund (£1.4 billion) the Property Asset Transfer was not of key consideration to performance. It was explained that the recognition of Property Asset Transfer would be a statement of facts in the accounts based on the guidance that existed and would not be subject to decision by the Committee.

The Scheme Actuary confirmed that the Fund could still achieve its target without the 2.5% return being assumed from the Property Asset Transfer because of the size of the Fund.

Equally, it was explained that a drop in contributions would not have a material impact on the fund. Members discussed and sought clarification on the split between the contributions made to the Fund by the Council and employees.

*The Independent Chair of the Pension Board left the meeting at 11:48am.*

There was further discussion on the merits of maintaining contributions at the current level, decreasing them and when a decrease might be implemented.

The Scheme Actuary reminded Members of the need to set the contribution level and that this would be reconsidered in three years after the next valuation. Therefore, this decision in terms of pension funding was seen as short term and incremental movement in the right direction. It was noted by the Chair that a reduction in contributions would be to the benefit of Council Tax payers. It was noted that employee contributions were set statutorily.

There was discussion of whether this approach to contributions could be described as being in line with the approach being taken by other local authority funds and especially those that were being seen to do well (with 100% funding). However, it was noted that information on other funds was not available on which to make a judgement. A Member questioned if a reduction in contributions was the right approach as the Fund was not 100% funded. The Scheme Actuary provided reassurance stating that the size of the Fund was sufficient to sustain a small reduction. The Head of Pensions and Treasury cautioned against making the automatic assumption that the target should be 100% funded when in effect the Fund was always planning for 80 years in the future. It was noted that in 2018/19 the Council's contribution was £29.6 million with £12.7 million paid by employees.

Members noted their desire for prudence and that it was reasonable to make a reduction in contribution rates against the backdrop of the financial pressures on the Council.

The Head of Pensions and Treasury confirmed that the Committee would be asked to agree the Investment Strategy at its next meeting.

**RESOLVED:** The Committee AGREED to note the report and AGREED the following recommendations:

- i. Noted the progress towards concluding the triennial actuarial valuation and the whole fund results; and
- ii. Approved the draft Funding Strategy Statement.

## **18/20 Minutes of the Previous Meeting (Part B)**

The minutes of the meeting held on 7 January 2020 were agreed as an accurate record with the inclusion of one small change (replacing 'rectifying with decision' with 'rectification').

The meeting ended at 12.07 pm

**Signed:**

**Date:**

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