

Pension Committee

Meeting held on Tuesday, 11 October 2022 at 10.00 am in Council Chamber, Town Hall,
Katharine Street, Croydon CR0 1NX

MINUTES

Present: Councillor Callton Young OBE (Chair);
Councillor Clive Fraser (Vice-Chair);
Councillors Simon Brew, Patricia Hay-Justice, Yvette Hopley and Endri Llabuti
and Enid Mollyneaux

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

Also Present: Councillors Richard Chatterjee, Stuart Collins and Nina Degrad

Matthew Hallett (Acting Head of Pensions and Treasury), Gillian Phillip
(Pensions Manager), Mike Ellsmore (Chair of Pension Board) Robert McInroy
(Pension Scheme Actuary) and Robbie Sinnott (Mercer)

Apologies: Councillor Alasdair Stewart

PART A

24/22 Minutes of the Previous Meeting

The minutes of the meetings held on Tuesday, 8 December 2020; Tuesday, 16 March 2021; Tuesday, 25 May 2021; Friday, 3 December 2021 and Tuesday, 14 June 2022 were agreed as accurate records.

Councillor Patricia Hay-Justice and Peter Howard abstained from the vote to approve the minutes.

25/22 Disclosure of Interests

There were none.

26/22 Urgent Business (if any)

Actions Arising from last meeting.

Reports to The Pensions Regulator – The Head of Pensions and Treasury read a letter dated 08 August 2022 from the Pensions Regulator following its investigation into the 'The Property transfer' and the reports mad regarding meeting minutes and record-keeping.

Regarding Minutes and Record-Keeping the letter read; Scheme managers of public service schemes are responsible for making sure schemes have accurate, complete and up-to-date records. They should have controls and processes in place to maintain these standards. Poor quality or missing data increases the risk of them being unable to meet their legal duties. During our engagement with the Scheme, we have become concerned by the:

- Disproportionate length of time taken for meeting minutes to be approved; and
- Missing minutes – i.e. lack of available meeting minutes to serve as an accurate record of the matters discussed and decisions taken at pension committee meetings.

Going forward, we expect appropriate controls and processes to be put in place to ensure that draft meeting minutes are produced in a timely manner and for them to be reviewed and approved promptly as a matter of process. This will ensure that they serve as an accurate record.

27/22 Triennial Valuation

The Acting Head of Pensions and Treasury introduced the item and presented his report on the Triennial Valuation, stating that the purpose of the paper was to present the Funding Strategy Statement to the Committee and as part of the valuation process, this was to be reviewed every three years. This was last reviewed in May 2021 following changes in legislation.

The format of the Funding Strategy Statement had changed, and the relevant policies were now attached to the statement.

The Acting Head of Pensions and Treasury informed the Committee that he wanted them to approve the draft Funding Strategy Statement before it was issued for consultation with employers. He also wanted the Committee to note the progress of the 2022 valuation and to note the initial whole fund results which were effective 31 March 2022.

The Acting Head of Pensions and Treasury invited the Fund's Actuary from Hymans Robertson, Robert McInroy to address the Committee. Robert McInroy stated that the main changes to the funding strategy had been structural, to ensure that the strategy was more accessible, practical and user friendly. Robert McInroy informed the Committee that the funding assumptions had been updated to allow for emerging experience in market conditions as at the 31 March 2022. The second main change was the statutory requirement to document the allowance for climate risk in any funding plans. The final change was in respect of the treatment of the McCloud ruling.

Robert McInroy stated that the next step would be to go out and consult with the employers on the funding strategy statements, and then relay their comments to the committee in March for their approval of the Funding Strategy Statement.

In response to questions from members, officers informed the Committee:

- That there was huge uncertainty which is why they undertook stress testing. This stress testing assessed various scenarios such as green initiatives which would see them make a move to more 'green' assets, this would present some disruption in the short-term and long term the physical risks such as flooding, fire would have less of an impact. Another scenario that was tested assessed the event that there was not much policy change, this would lead to less disruption in the short-medium term but in the longer term there may be more physical risks.
- That in terms of the increase in liabilities, the biggest factor was the fact that Members had accrued more benefits in the past three years. Rises in inflation had also led to the increase in liabilities, also as people are expected to live longer than they did in 2019 this has also increased the liabilities. In regard to the market volatility, his recommendation was to stick with the assumptions on market conditions made on the 31 March 2022.
- That the funding plans were devised with a long-term view, yet he was mindful of the events in the market and if there was a long-term shift in the economic environment then they would look to act. If Members wanted more information on exchange rates, then they should speak to their investment consultant. In their discussions with employers, they were taking contribution rates into consideration, particularly with short term employers as they were more likely to be impacted by short term market movements.
- That the assumptions in the report which formed part of the valuation stacked up and the modelling and scenario analysis highlighted the fact that they stand within the tolerance levels that were required.
- That the average rate of return was a nominal expected return per annum. The agenda packs contained the balance sheet funding position at the 31 March 2022 and showed that on inflation there was a central assumption that was used to represent the balance sheet, to have a single set of assumptions a number needed to be decided upon which would contain a higher short-term inflation. Within the employer contribution plans, they were allowing for many different types of inflation over the short and long term, this is tested to capture the uncertainty in inflation. They had also tested the 10% drop in assets in order help inform the decision that was taken.

RESOLVED:

- The Committee approved the draft FSS (Appendix A) and 'satellite' policy documents on contribution reviews (Appendix B), academy funding (Appendix C), bulk transfers (Appendix D), cessations (Appendix E) and prepayments (Appendix F) to be issued to all

participating employers for comment alongside their 2022 valuation results.

- The Committee noted the progress made towards the 2022 valuation.
- The Committee noted the initial whole Fund results effective 31 March 2022.

28/22 Governance and Compliance Statement

The Acting Head of Pensions and Treasury introduced the item and presented the report to the Committee, stating that a report was originally brought to the Committee in June on the Governance and Compliance Statement. It was felt that the Fund was not fully compliant due to the performance on meeting papers. Officers confirmed that the Pensions Board was not a secondary or subcommittee and that the Governance and Compliance Statement had been updated to reflect this.

In response to questions from members, officers informed the Committee that:

- The Pensions Board and Officers had discussed the recommendations from the governance reviews and various follow-up discussions. Officers recommended that a voting non-council employer representative position be added to the Pension Committee, the staff trade union representative be granted voting rights and one pensioner representative would have voting rights and that this would form part of the constitution changes that would be recommended later in the meeting.

The Chair asked for a report explaining the rationale behind the enfranchisement and balance of representation of the Pension Committee.

The Pension Board Chair explained that a lot of work that had gone into the proposed constitutional amendments and he wanted to express his thanks to officers. The Chair of the Pension Committee agreed and expressed his thanks also.

Officers stated that the proposed constitutional changes would need to be agreed by the Monitoring Officer.

RESOLVED:

- The Committee agreed the revised draft Governance Best Practice Compliance Statement attached as Appendix A subject to the agreed amendments to principle E.
- Officers to present a paper to the next committee meeting explaining the rationale behind enfranchisement and balance of representation.

29/22 Progress on implementation of Aon Governance Review Action Plan

The Acting Head of Pensions and Treasury introduced the item and presented the report to the Committee and explained that the purpose of the report was to consolidate all the findings and comments which came from the governance reviews. This report was taken to the Pensions Board in June, and they had come up with a recommended action plan, which listed the actions that would be carried out moving forward.

In response to a question from members, officers informed the Committee that:

- The recommendations on the action plan had been included in the proposed constitutional changes that were to be presented to the Monitoring Officer.

The Chair expressed concern that there were no constraints on the remuneration for members of the Pension Board.

RESOLVED:

- The Committee agreed the outstanding actions to be taken forward as a result of the findings from the various Governance Reviews as detailed in section 3.4 of this report.
- The Committee agreed to note the progress achieved in addressing the findings of the Governance Reviews of 2019 and 2021.
- The Committee recommended that appropriate constraints on Board Member allowances are added to the proposed constitutional changes.

30/22 Breaches of the Law Policy

The Acting Head of Pensions and Treasury introduced the item and presented the report to the Committee and explained that there were certain individuals who were responsible for reporting breaches of the law to the Pensions Regulator. The Fund needed a policy on how to identify and record breaches and determine what was reportable to the Pensions Regulator. This policy would set out the procedures that were considered when making reports to the Pensions Regulator.

In response to a question from a member, officers informed the Committee that:

- The report had not been presented in a before-and-after format as there had been numerous changes.

RESOLVED:

- The Committee agreed the Fund's new "Reporting Breaches of the Law Policy" and appendices.

31/22 Breaches of the Law Log

The Acting Head of Pensions and Treasury introduced the item and presented the report to the Committee and explained that the Breaches of the Law Log had been presented to the Committee in June and they had removed two breaches from the log as they had passed the three-year limit for which they had to be included.

In response to a question from members, officers informed the Committee that:

- The failure to produce minutes was reported to the regulator, however officers could not confirm how the issues regarding the property transfer had been reported but stated that the issue had been resolved.
- The pension fund accounts formed part of the Council's accounts, and therefore they could not be signed off until the Council's accounts had been signed off.
- The figures in the KPI report were taken at the end of July and great progress had been made since. Hymans Robertson had anticipated working through the backlog by the middle of October 2022.
- During the property transfer Eversheds acted on behalf of the pension fund and had produced documents for the property transfer. He also explained that Burges Salmon provided Pension officers with legal advice when reviewing their reports, and Gowlings provided legal advice when dealing with legal agreements.

Members proposed that that officers change the comments in the appendix from 'amber' to 'green' as the outstanding Pension Committee and Board minutes had been published.

RESOLVED:

- The Committee agreed the contents of the Pension Fund Breaches Log, Appendix A subject to the entry on minutes being changed to a 'green rating'.

32/22 Constitution Changes

The Acting Head of Pensions and Treasury introduced the item, presented the report to the Committee and explained that the Pensions Committee and the Pensions Board operated within the parameters set out by the Constitution. As a result of the governance review officers had devised an action plan which included changes to the constitution that were to be proposed to the Monitoring Officer.

In response to a question from members, officers informed the Committee that:

- The reference to the London Collective Investment Vehicle (LCIV) structure was up to date and had been recently extracted from their website.

RESOLVED:

- The Committee agreed the proposed amended sections of the Constitution as they relate to The Pension Committee and Pension Board, subject to the comments made during the discussion on the Governance and Compliance Statement and recommend them to the Monitoring Officer.

33/22 Training Plan

The Acting Head of Pensions and Treasury introduced the item and presented the report to the Committee and explained that as part of the governance review recommendations officers were asked to assess the knowledge and skills policy, which was agreed at the previous Pensions Committee meeting. The agreed knowledge and skills policy enabled officers to formulate a training plan, which included mandatory courses such as the LGA course and the Hymans online course.

In response to a question from a Member, officers informed the Committee that:

- They would consider the need for more interactive sessions and workshops where possible so that Members could consolidate their knowledge and asked whether Members could suggest dates for future interactive sessions.

RESOLVED:

- The Committee agreed to note the contents of the joint Pension Committee and Pension Board Training Log and Training Plan.

34/22 Administration Performance Report

The Pensions Manager introduced the item and presented the Administration Performance report to the Committee and explained that the backlog had impacted the reporting of stats and the service anticipated an improvement in future. Officers had focused on preparation for data submission for the valuation which was concluded on time. The Pensions Manager stated that two staff members had resigned, and that they were in the process of recruiting to those posts.

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

- The statistics in the report included the backlog work that Hymans had carried out and once they had worked through the backlog, they anticipated that the statistics would improve moving forward.
- Matthew Hallett was covering the Head of Pensions position which was vacated in March. The Council was experiencing issues in recruiting

permanent staff in the finance department and the decision to recruit to the Head of Pensions position sat with the Section 151 Officer.

- There had been discussion with the Pension Board about whether the pension fund would act as a sole entity. This would require larger staffing requirements and any potential benefits gained may be outweighed by the increased costs and the regulations that the Council would have to adhere to.
- The Pension Committee fell under the Council's remit regarding insurance as it was the administering authority. The Pension Board was insured separately as it was not covered by the Council.

RESOLVED:

The Committee agreed to note the Key Performance Indicators and the performance against these indicators set out in Appendix A in the report.

35/22 Risk Register Review

The Acting Head of Pensions and Treasury introduced the item and presented the report to the Committee and explained that best practice recommended that a risk register was maintained by the Pension Committee. The risk register would record relevant risk scenarios, together with an assessment of their likelihood and impact and appropriate mitigations.

RESOLVED:

- The Committee agreed to note the contents of the Pension Fund Risk Register.

36/22 Update on LCIV

The Acting Head of Pensions and Treasury introduced the item and explained that the report advised the Committee on the extent to which the pension fund complied with the guidance and provided an outline of the savings made in the year 2021-22.

In response to a question from Members, officers informed the Committee that:

- It would cost more money to transition the alternative portfolio into the CIV.
- Officers would look to move their bond portfolio into the CIV as this would be relatively simple. In terms of transferring property funds, selling a property fund would incur a minimum 5% exit fee from the value and so liquidating property assets would have to be done over time. Infrastructure funds were close-ended funds, so members would have to wait for them to mature before deciding whether to re-invest in the CIV products. The CIV tend to base the savings reported on savings made from the standard rate card. If the Fund were investing outside of the CIV they would probably not pay the standard rate.

- The two mandates within the CIV are the PIMCO Global Bond Fund and the RBC Sustainable Global Equity Exclusion Fund.

RESOLVED:

- The Committee agreed to note the contents of this report.

37/22 Update on SAB and TPR news

The Acting Head of Pensions and Treasury introduced the item and presented the report and informed the committee that there had been letters written by the Chair of the Scheme Advisory Board to the minister regarding the Council's issues with the audit of the accounts as well as the separation of the Local Government Pension Scheme from the Council accounts.

RESOLVED:

- The Committee agreed to note the contents of this report.

38/22 Progress report for quarter ending June 2022

The Acting Head of Pensions and Treasury introduced the item and presented the report to the Committee.

The Committee considered the Part A report, which gave introduction to the commercially sensitive context to the performance of the Pension Fund over the most recent quarter.

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

- The valuation of the bonds had decreased, equities had steadied, and the LGIM Passive fund had performed negatively throughout the quarter.
- The triennial valuation was a snapshot of a point in time since which the value of the Fund had dropped.

RESOLVED:

- To note the performance of the Fund for the quarter ended 30 June 2022.

39/22 Exclusion of the Press and Public

The following motion was moved by Councillor Young and 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.

40/22 Progress report for quarter ending June 2022

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 12.47 pm

Signed:

Date:

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