



City of Westminster

Minutes

Meeting:

Superannuation Committee

1/2013

Date of meeting:

Wednesday 20 February 2013 at 7.00pm

Attendees:

Councillors:

Suhail Rahuja (Chairman)

Edward Baxter

Antonia Cox

Patricia McAllister

Dr Cyril Nemeth

Ian Rowley

Officers:

Barbara Moorhouse (Chief Operating Officer)

Jonathan Hunt (Director of Corporate Finance & Investment)

Carolyn Beech (Acting Director of Human Resources)

Trevor Webster (Senior Human Resources Manager)

Michael Nicolaou (Pension Manager)

Jonathan Deacon (Committee & Scrutiny Officer)

Also in attendance:

Alistair Sutherland (Deloitte Investment Consultants)

Graeme Muir (Barnett Waddingham)

Apologies:

There were none.

Contact:

Jonathan Deacon

Committee and Scrutiny Officer

Details:

Tel: 020 7641 2783

Fax: 020 7641 2917

Email: jdeacon@westminster.gov.uk

1. MEMBERSHIP OF THE COMMITTEE

1.1 There were no membership changes.

2. DECLARATIONS OF INTEREST

2.1 The Chairman made the following declaration:
'I am employed by fund managers who have amongst their clients Hermes. I am not involved in any element of the work which relates to the Westminster Fund and accordingly do not regard this as a prejudicial interest'.

3. MINUTES

3.1 The minutes of the Superannuation Committee meeting held on 28 November 2012 which did not include exempt information were agreed as a correct record and were signed by the Chairman.

4. DISCUSSION WITH THE FUND'S ACTUARIES, BARNETT WADDINGHAM

4.1 Graeme Muir, Partner at Barnett Waddingham, gave a presentation at the meeting on behalf of the Fund's recently appointed actuaries. He made the following points:

- Barnett Waddingham LLP is an independent firm of actuaries and consultants with seven offices throughout the UK. The firm had grown steadily since its foundation in 1989. There was now over 600 staff. These included 55 Partners, 63 Associates and over 100 qualified actuaries. Mr Muir had over a 25 year career advised two thirds of all Local Government Pension Scheme ('LGPS') funds. Mr Muir was one of the two partners in the Barnett Waddingham Westminster Team, along with Alison Hamilton who was Chair of the Association of Consulting Actuaries LGPS Sub-Committee and on the Department for Communities and Local Government Local Government Pension Scheme Policy Review Group. He emphasized the stability of the team members as there had been no leavers in the previous ten years.
- Barnett Waddingham had a bespoke LGPS funding model. There was a focus on stability of employer contributions and it was intended to be "QE proof". They used an economic discount rate which was more stable than the gilt based discount rate. Gilts were artificially low due to quantitative easing and these would push down funding levels unless action was taken on the discount rate. Stability came from dividend yields' input into the discount rate. Data was measured on a rolling six month period. Mr Muir would provide further detail when the valuation results were finalised.
- He referred to a number of significant issues which would impact on the LGPS in 2014. These included a career average formula for pensions to replace the final salary scheme, the proposed increase in the pension age from 65 to 68, there would be no increase in average LGPS member contribution although overall higher rate tax payers would have to pay more, there would be savings for employers of 1% to 2% of pay on average and the 'LGPS lite' scheme was due to be implemented which involves half accrual for half contributions. He estimated

that the change from the retail prices index calculation to the consumer prices index had reduced employer contributions by approximately 2%. Mr Muir confirmed in response to Members' questions that all accruals prior to 2014 would remain intact.

- The key issues at the 2013 valuation would include the funding strategy such as recovery periods. There was the potential for the introduction of a Pensions Regulator to have some oversight of local government pensions. The Pensions Regulator could potentially have a negative view in respect of councils with longer recovery periods and higher discount rates. The changes to the LGPS in 2014 would have no impact on deficits. The results of the 2013 valuation would be available in the autumn. Mr Hunt added that his expectation was that the draft assumptions would be taken to the September 2013 Committee meeting and the final results would be discussed at the November Committee meeting.
- The Chairman asked about the Council's cash flow position. Mr Muir replied that the income received was currently only slightly greater than the cash outflow. It was likely to be cash flow negative in the next few years. This was typical of LGPS schemes across the country, with some funds already being in this position. The implications of this for the Fund were discussed by the Committee. It was noted that there had been a significant decrease in employees at the Council of over 20% in the last three years. There was a consequent increase in contributions, some of which would be deferred and some of which would be drawn by previous staff who had become pensioners.

4.2 The Chairman stated that the Committee looked forward to working with Mr Muir and Barnett Waddingham. Members had the opportunity to discuss actuarial matters with Mr Muir and also receive training.

4.3 **RESOLVED:** That the contents of the report be noted.

5. **CHANCELLOR'S AUTUMN STATEMENT SUMMARY OF PENSION CHANGES AND IMPLICATIONS**

5.1 The Committee received a report with a summary of the LGPS pension implications arising from the Chancellor's Autumn Statement. Carolyn Beech, Acting Director of Human Resources, stated that the two significant changes were that from April 2014 the lifetime allowance would be reduced from £1.5million to £1.25million and the annual allowance would be reduced from £50,000 per annum to £40,000 per annum. The Lifetime Allowance referred to the total value of an employee's pension benefits. The annual allowance was dependent upon the length of service and the levels of contributions which in turn was dependent upon the salary level. Those employees who had reached a lifetime allowance between £1.25million and £1.5million were likely to come out of the scheme which could potentially have a cash flow implication. Ms Beech informed Members in response to their queries that 7 employees were close to the lifetime allowance limit. 18 employees had been affected when the annual allowance had previously been reduced to £50,000 per annum and a further 23 employees would be affected when the annual allowance was reduced to £40,000 per annum in April 2014.

5.2 **RESOLVED:** That the contents of the report be noted.

6. PERFORMANCE AND MANAGEMENT OF THE COUNCIL'S PENSION FUND

6.1 The Committee received a report which presented a summary of the Fund's performance to 31 December 2012 and advised that Westminster's Fund was complying with statutory requirements. Alistair Sutherland from Deloitte, the Council's investment consultants, drew Members' attention to two recent developments. Firstly, at the start of the year Majedie had announced changes to the team managing the UK Equity Focus Fund, replacing Adam Parker. The reason given for the move was that following the closure of the UK Opportunities Fund, Parker was not involved in managing any other portfolios encompassing both large and small cap stocks. Deloitte would monitor the situation but at the current time did not see the changes to the team as being of significant concern. Secondly, Insight had acquired Pareto Investment Manager in September 2012. Whilst this was not likely to be of direct concern to Westminster's Fund, Deloitte would monitor whether the Pareto team would be incorporated into the broader Insight investment team and currency overlay be added to the mandate.

6.2 The Chairman requested an update on the Hermes Property Unit Trust as it had not been included in the report. Mr Sutherland stated that he liked a number of Hermes' investments. He had met the Fund Manager at Hermes earlier in the day and it was his assessment following discussions with the Fund Manager that the Hermes property mandate was reaching its capacity. He was therefore not recommending further investment. The Chairman also asked for an explanation of the cumulative quarterly fund and liability performance table on page 22 of the report. It measured quarterly performance over every quarter since Q2 in 2006. Mr Sutherland responded that it was a simplistic proxy. However, liabilities were up approximately 60% as gilt yields had gone down and the Fund's assets had gone up by over 30%. The gap between the green liability proxy line and the blue fund performance line was how much the deficit had increased.

6.3 **RESOLVED:** That the contents of the report be noted.

7. ANY URGENT BUSINESS

7.1 There were no items of urgent business.

8. EXEMPT REPORT UNDER THE LOCAL GOVERNMENT ACT 1972

8.1 **RESOLVED:** That under Section 100 (A)(4) and Part 1 of Schedule 12A to the Local Government Act 1972 (as amended), the public and press be excluded from the meeting for the following items of business because they involve the likely disclosure of exempt information on the grounds shown below and it is considered that, in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information:

<u>Item Nos.</u>	<u>Grounds</u>	<u>Para. of Part 1 of Schedule 12A of the Act</u>
9 to 11	Information relating to financial or business affairs of any particular person (including the authority holding that information).	3

9. MINUTES

9.1 The minutes of the Superannuation Committee meeting held on 28 November 2012 which included exempt information were agreed as a correct record and were signed by the Chairman.

10. PENSION FUND PROPERTY INVESTMENTS

10.1 The Committee received a report with proposals for diversifying the property investment in the Fund.

10.2 **RESOLVED:** That it be decided by the Committee to invest in the Standard Life Long Lease Property Manager Pension Fund.

11. PENSION FUND ADMINISTRATION

11.1 The Committee received a report on Tri-Borough arrangements.

11.2 **RESOLVED:** That the contents of the report be noted.

12. CLOSE OF MEETING

12.1 The meeting closed at 8.51pm.

CHAIRMAN:

DATE: