



CITY OF WESTMINSTER

# MINUTES

## Pension Fund Committee

### MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Pension Fund Committee** held on **Tuesday 15th November, 2016**, Rooms 3 and 4, 17th Floor, City Hall, 64 Victoria Street, London SW1E 6QP.

**Members Present:** Councillors Suhail Rahuja (Chairman), Antonia Cox, Patricia McAllister and Ian Rowley.

**Officers Present:** Steven Mair (City Treasurer), Lee Witham (Director of People Services), Peter Carpenter (Assistant City Treasurer, MSP), Kim Edwards (Senior Pensions and Payroll Adviser), Nikki Parsons (Pension Fund Officer) and Toby Howes (Senior Committee and Governance Officer).

**Also Present:** Craig Anderson (Service Delivery Director, BT), Jason Bailey (Pension Services Manager, Surrey County Council), Kevin Humpherson (Deloitte), Graeme Muir (Barnett Waddingham), Alistair Sutherland (Deloitte) and Gareth Wood (Head of Finance for the Shared Service Centre, BT).

#### 1 MEMBERSHIP

1.1 There were no changes to the membership.

#### 2 DECLARATIONS OF INTEREST

2.1 Councillor Suhail Rahuja declared that he was employed by fund managers who have amongst their clients Hermes. However, he was not involved in any element of the work which relates to the Westminster Pension Fund and accordingly he did not regard this as a prejudicial interest.

#### 3 MINUTES

3.1 That the Minutes of the meeting held on 20<sup>th</sup> September 2016 be signed by the Chairman as a correct record of proceedings.

## **4 PENSION FUND ACTUARIAL VALUATION AND FUNDING STRATEGY STATEMENT**

- 4.1 Graeme Muir (Barnett Waddingham) of the Fund's Actuary, gave a presentation to Members providing an update on progress with the 2016 triennial valuation. He began by stating that the terms of the triennial funding valuation were set out in Local Government Pension Scheme (LGPS) Regulations and the principal objective was to certify the levels of employer contributions to secure the solvency of the fund and the long term cost efficiency of the scheme. The valuation should also have regard to the Fund's Funding Strategy Statement as determined by the administering authority. Whilst undertaking the valuation, Graeme Muir advised that the actuary should have regard to the desirability of maintaining as nearly a constant contribution rate as possible.
- 4.2 Graeme Muir then referred to the outcome of the previous valuation in 2013, where it had been established that the funding level was 74% and an aggregate of 16.5% deficit contributions of pensionable pay was required to eliminate the deficit over a 25 year period. In addition, 13.3% of pensionable pay was required to meet the cost of new benefits as they were earned from year to year, which put the total rate of pensionable pay at 29.8%. In order to meet the total pensionable pay rate, there had been an increase of £1.5m in deficit contributions each year, and the total deficit contribution would be £9m for 2016/17.
- 4.3 Graeme Muir then focused on the 2016 valuation and referred to the various challenges it faced, including the impact of needing to adhere to Section 13, which required an independent review undertaken by the Government's Actuary Department of the valuation and contribution rates to ensure that they were appropriate and remedial action taken where problems were identified. Members noted that Funds may still have their own bespoke funding plans, but they needed to have regard to the Section 13 valuation and also to the key performance indicator measures. Graeme Muir advised Members on the 2016 valuation financial assumptions, including using market indices and yield curves using a 20 year point on curves and the model using assumptions assessed over a six month period, spanning the valuation date to give stability, a process known as 'smoothing'. Neutral assumptions that were neither intentionally optimistic nor pessimistic were used and prudence introduced where there was uncertainty. In respect of inflation, an assumption of 3.3% had been used for the smoothed 20 year point, which after the 0.9% consumer price index (CPI) assumption was taken into account, revised the rate at 2.4%. Members noted the assumed discount rate on gilts, bonds, equities and on other assets including property and cash. Graeme Muir advised that a proposed overall discount rate of 5.1% per annum, adjusted to 2.7% when factoring in the CPI discount, was assumed for scheduled bodies within the Fund, including the Council, whilst for admitted bodies the discount rate assumed would be 1.5% after the CPI discount. Demographic assumptions had also been made, including a review of Fund mortality over 2011-2015 which had identified that life expectancies had slightly increased.

- 4.4 Graeme Muir advised that the initial results of the 2016 valuation indicated that the funding level had increased to 77% compared to 74% from the previous valuation and the total primary rate was 17.9% compared to 13.3% previously. In terms of comparisons with other funds, the Westminster Fund was broadly in the middle according to the standardised funding level assessment undertaken of funds. Graeme Muir advised that the next steps would involve managing contribution increases to reduce the deficit further. He confirmed that the Westminster City Council results had now been completed and Barnett Waddingham was in the process of finalising results of other individual employers in the Fund.
- 4.5 During discussion, Members enquired whether the Fund would meet the expectations of the Section 13 valuation, including whether the Fund could be considered to be not inconsistent with other funds. It was noted that a smoothed dividend of 7.4% had been assumed for equity returns and it was enquired whether this was sustainable as it appeared quite high. Members pondered whether the assumed increases in life expectancy were overly high. In noting that an increasing number of schools admitted as scheduled bodies were becoming academies, views were sought on the impact this may have on the Fund. Members also asked what steps were being taken to reduce the Fund's deficit and whether there would be further increases in contributions.
- 4.6 In reply to Members' questions, Graeme Muir stated that he felt confident that the Fund would meet Section 13's expectations, including in respect of consistency, and the smoothing technique endeavoured to make consistent assumptions. He acknowledged that mortality rate increases had slowed down in recent years. The Chairman added that there had been an appreciable increase in life expectancy for males in the last three years.
- 4.7 In respect of schools becoming academies, Graeme Muir stated that a significant number had made such a change, however the Government provided guarantees in the event of an academy going bust. The Scheme Advisory Board had also commissioned Pricewaterhouse Coopers to analyse funding academy arrangements.
- 4.8 Steven Mair (City Treasurer) advised that a significant amount of work had been undertaken in respect of reducing the Fund's deficit and proposals would be put forward at the Council meeting on 1<sup>st</sup> March 2017. Peter Carpenter (Interim Tri-Borough Director of Treasury and Pensions) added that the new Funding Strategy Statement had been drafted, reflecting changes in legislation and the final version would be presented to the Committee at the 21<sup>st</sup> March 2017 meeting.

4.9 **RESOLVED:**

That the draft Funding Strategy Statement attached in Appendix 2 of the report be approved, pending consultation with the employers.

## **5 PENSION ADMINISTRATION UPDATE**

- 5.1 Lee Witham (Director of People Services) introduced the first report on this item in respect of the BT Managed Services Improvement Plan. He referred to the main problems impacting on performance of pensions, including the lack of interface detailing staff starters and leavers which meant that these details were having to be manually entered which was a slow process and increased the chance of human error. The lack of interface had led to some pension records being out of date or absent. Members were advised that Surrey County Council and BT had been requested to work collaboratively to resolve this issue.
- 5.2 Lee Witham informed the Committee that there were also problems in respect of those who had opted out of the Pension Scheme who had supposed to have been auto-enrolled. This had not appeared to have been undertaken and BT had agreed to write to affected employees again that they are due to be auto-enrolled unless they wished to opt out.
- 5.3 In respect of Annual Benefits Statements, Lee Witham advised that approximately 250 pension scheme members had not yet received their statements. This affected those who were absent in 2015/16 for example because they were on maternity leave or on long term sick leave. An update from BT on when the correct data would be sent to Surrey County Council was awaited.
- 5.4 Gareth Wood (Head of Finance for the Shared Service Centre, BT) was then invited to address the Committee and he advised that an interface was being developed and a draft had been sent to Surrey County Council who had requested some changes. Gareth Wood stated that the auto-enrolment issue had now been rectified and that the Annual Benefits Statement would be incorporated into the interface and all statements would be sent out by the end of the year.
- 5.5 Craig Anderson (Service Delivery Director, BT) added that it was acknowledged that there was too much manual inputting presently required, however an IT tool was being developed to address this issue. Staff members were also being re-skilled and offered more support and additional resources were now available for the Pensions Team, with points of failure being identified. Members noted that there had been a particular issue with teachers' pensions.
- 5.6 During Members' discussions, it was asked to what extent had the issues been resolved to date and how was the interface progressing. Members sought an explanation as to why the problems had persisted for such a length of time and when was it expected that all problems would be resolved. The Committee expressed its surprise that staff did not have the sufficient skills from the outset, especially as some aspects of processing the information appeared relatively straightforward. It was remarked that the training and upskilling should have taken place in 2015 before the new pension administration arrangements went live. Members sought further details in respect of problems concerning teachers' pensions and were there any other

aspects of pension administration that could potentially become a problem. A Member commented that she had heard that there also had been problems relating to overtime payments since 2014 and she asked for further details on this.

- 5.7 In reply to issues raised by Members, Gareth Wood acknowledged that the present situation was not ideal, however in terms of the interface the reports that had been developed had been thoroughly tested and checked for all tri-boroughs. He felt that once the interface was in place, performance would improve appreciably. Gareth Wood stated that a holistic review had been completed over a whole cycle and had strengthened front end controls and upskilled staff and as a result he did not anticipate any new issues arising.
- 5.8 Craig Anderson stated that BT were seeking to appoint additional staff with the appropriate technical skills, however he stated that such skills were in short supply and existing BT staff were also being upskilled. Staff had been appointed from across the country and the Pensions Team were being trained to acquire Agresso skills.
- 5.9 Lee Witham emphasised the need for Surrey County Council, BT and the Council to work collaboratively to resolve the issues and it had been impressed upon both Surrey County Council and BT of the need to bring in more resources, including staff, and skills. He advised that he could not give a definitive date as to when all issues would be resolved, however he felt that there was a full understanding of what the problems were and these could be resolved by working collaboratively.
- 5.10 Kim Edwards (Senior Pensions and Payroll Adviser) advised that there had been a tri-borough meeting with BT in October and a further one would take place in December to work through outstanding issues. She stated that Council officers would also be willing to visit BT to provide support and any training felt appropriate. Kim Edwards advised that a number of teachers' pension returns had been submitted late and this had caused some delays. Steven Mair added that some teachers' annual returns had not included sufficient data and this had caused further delays.
- 5.11 In respect of overtime payments, Jason Bailey (Pension Services Manager, Surrey County Council) stated that this was a complicated issue and Kim Edwards had offered to assist on this matter. He felt that training and paying sufficient attention to detail would address this issue.
- 5.12 The Chairman stated that a number of concerns about pension administration had been raised at the Pensions Annual General Meeting on 21<sup>st</sup> September. He requested that BT representatives attend the next meeting on 21<sup>st</sup> March 2017 to update Members on progress on this matter and advised that BT would continue to be invited to future meetings until the issues had been fully resolved.
- 5.13 Lee Witham then introduced a paper that provided an update on Surrey County Council pension administration performance. He informed Members that the Council had been working collaboratively with Surrey County Council

in producing a list of key performance indicators (KPIs) that better reflected the overall experience of the Fund's members and he referred to the new KPIs added in the report. Kim Edwards added that the new KPIs also reflected issues that had been raised at Pensions Annual General Meeting, particularly where pension payments had been delayed.

- 5.14 Jason Bailey stated that there had already been a number of areas being measured by KPIs in the original list, however the updated list was even more comprehensive. In putting together the list of KPIs, he stated that the scale of investment needed to be taken into account.
- 5.15 During Members discussions, it was queried why the issues highlighted in the BT Managed Services Improvement Plan report had not been included in the KPI list. Members asked whether officers were satisfied that sufficient progress was being made in achieving the KPIs. Further explanation was also sought as to why it was taking so long for the interface to be in place and go live.
- 5.16 In reply, Jason Bailey advised that the concerns highlighted in the BT Managed Services Improvement Plan report had not yet been included on the KPI list as there was a lack of information by which they could be measured, however once this data was available, they would be added to the KPI list. He felt that real progress was being made in achieving the KPI targets and the interface, which would be in place once all the relevant data had been captured. Members noted that useful feedback had been provided from Christopher Smith (Pension Board and Unison member) on Fund members' experience.
- 5.17 Steven Mair added that issues beyond just pension administration matters needed to be addressed in respect of BT and this was why it had taken so long to resolve.
- 5.18 The Chairman emphasised the need for the KPI list to record the real performance and to include the concerns raised in the BT Managed Services Improvement Plan report. He also invited Christopher Smith to attend the next meeting on 21<sup>st</sup> March 2017 to feedback his comments on the experience of pension scheme members.

## **6 ASSET POOLING AND LONDON COLLECTIVE INVESTMENT VEHICLE UPDATE**

- 6.1 Peter Carpenter presented the report and stated that it was desirable that the Majedie portfolio be transferred to the London Collective Investment Vehicle (CIV) as quickly as possible. He stated that the processes by which the Majedie assets were to be transferred to the CIV needed to be agreed. He advised that discussions continued in respect of transferring Longview assets to the CIV, however this was not expected to be agreed until the spring of 2017. Arrangements were also being made to extend the Insight Investment contract by 12 months.

6.2 Members commented that the London CIV needed to move more quickly in respect of acquiring property assets as these would be of benefit to the CIV. The Chairman suggested that the mechanisms by which the Majedie assets would be transferred to the London CIV be discussed at the fund manager monitoring meeting on 16 December. Members also requested clarification as to whether a fund could participate in more than one CIV and Steven Mair agreed to look into the matter. The Committee agreed the recommendations in the report.

6.3 **RESOLVED:**

1. That the contents of the report be noted.
2. That it be agreed that the transfer of the Majedie portfolio to the London CIV be undertaken as soon it is possible to do so.
3. That the fee basis for the Majedie UK Equity Fund be agreed.

**7 INVESTMENT REGULATIONS AND INVESTMENT STRATEGY STATEMENT**

7.1 Peter Carpenter presented the report and informed Members that the Government had issued guidance on the Investment Strategy Statements as would be required under revised investment regulations that were due to come into effect shortly. He advised that the Fund was compliant overall to investment regulations, however, more work was needed in respect of ethical, environmental, social and corporate governance matters. As such matters needed to be taken into account in terms of governance, the Committee would need to review its current approach to this and also to enter into discussions with the London CIV with regard to the Stewardship Code, increased reporting and greater effort made to take into account the views of the Pension Board and Pension Scheme members. The Committee noted that an Investment Strategy Statement needed to be in place by 1 April 2017.

7.2 Members noted that it was required that the Pension Board be consulted in respect of environmental, social and corporate governance matters. With regard to the London CIV appointing fund managers, views were sought as to how the London CIV would exercise oversight over their performance and activities. Members requested that an officer be formally nominated to support the Pension Board.

7.3 In reply, Peter Carpenter stated that there needed to be a thorough consideration of the London CIV's governance arrangements in order to ensure effective monitoring of fund managers and the London CIV would be asked to explain how they would undertake this.

7.3 The Committee agreed to the Chairman's suggestion that Councillor Antonia Cox and Peter Carpenter liaise in respect of finalising the Investment Strategy Statement.

#### **7.4 RESOLVED:**

That it be noted that a draft Investment Strategy Statement is being prepared in accordance with the revised investment regulations and that it will be presented to the 21<sup>st</sup> March 2017 meeting.

### **8 FUND MANAGER MONITORING MEETING UPDATE**

8.1 Nikki Parsons (Pension Fund Officer) presented the report and confirmed that the fund manager monitoring meeting would take place on 16<sup>th</sup> December. She drew Members' attention to the timings for the meeting as set out in the report. It was noted that each fund manager was to give a 30 minutes presentation, followed by 15 minutes for any questions Members may wish to ask them.

8.2 The Chairman requested that the Chief Executive or other appropriate senior representative from the London CIV be invited to attend the fund manager monitoring meeting. Members concurred that the London CIV representative address the Committee at 8.30am, before he presentations from the fund managers commenced.

#### **8.3 RESOLVED:**

That the contents of the report be noted.

### **9 FUND FINANCIAL MANAGEMENT**

9.1 Nikki Parsons presented the report and advised that there were no additions to the Risk Register and she confirmed that the £4.5 million cashflow transfer from both the Baillie Gifford and Longview mandates had been completed. She informed the Committee that income earned from the Baillie Gifford and Hermes funds were now being taken as quarterly cash distributions. Nikki Parsons also advised that the London CIV fee savings from the Baillie Gifford mandate have been reflected in the cashflow forecast for the next three years.

#### **9.2 RESOLVED:**

1. That the Risk Register for the Pension Fund be noted.
2. That the cashflow position of the Fund be noted.

### **10 PERFORMANCE OF THE COUNCIL'S PENSION FUND**

10.1 Kevin Humpherson (Deloitte) presented the report and updated members on the performance of the Fund's managers over the last quarter and how these compared to their respective benchmarks. He confirmed that the Fund had outperformed its benchmark by 1.1% net of fees, mainly attributable to the strong performance of the active equity managers, Majedie and Baillie Gifford. Members noted that Standard Life's property portfolio had significantly underperformed relative to the benchmark both in the last quarter and over



the last year. Kevin Humpherson confirmed that the Fund was slightly ahead of its benchmark over the last three years.

- 10.2 Members asked whether low interest rates would end soon due to international developments, particularly in respect of the USA. It was also queried whether Longview's performance had been affected by issues concerning a diabetic drug product.
- 10.3 In reply, Alistair Sutherland advised that interest rates had started to rise, however they were not much higher than they had been in June. It was anticipated that in future interest rates would rise further, but Alistair Sutherland suggested that this may only be to around 4-5%. In respect of the Longview mandate, their drop in the market share had been more than expected and this had affected performance.
- 10.4 Alistair Sutherland brought to the Committee's attention Insight Investment's intention to exercise its discretion in changing a portion of their Bonds portfolio to an off benchmark fund. Members concurred that they did not have any concerns about Insight Investment in exercising this discretion. The Chairman also requested that Deloitte review currency strategy and put forward some proposals.

10.5 **RESOLVED:**

That the contents of the covering report and the performance report by Deloitte be noted.

**11 PENSION FUND COMMITTEE FORWARD PLAN**

- 12.1 Members noted the Committee's forward plan up to the end of 2017.

12.2 **RESOLVED:**

That the forward plan of work for 2017 be agreed.

**12 ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT**

- 12.1 There was no additional business for the Committee to consider.

**13 PENSION FUND INVESTMENT ADVISER CONTRACT**

- 13.1 Members considered a confidential report on the award of the Pension Fund Investment Adviser contract.

The Meeting ended at 9.00 pm.

**CHAIRMAN:** \_\_\_\_\_

**DATE** \_\_\_\_\_