



CITY OF WESTMINSTER

# MINUTES

## Pension Board

### MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Pension Board** held on **Monday 26th November, 2018**, Room 3.4, 3rd Floor, 5 Strand, London, WC2 5HR.

**Members Present:** Councillor Angela Harvey (Chairman and Employer Representative), Terry Neville (Vice-Chairman and Scheme Member Representative), Councillor Guthrie McKie (Employer Representative) and Martin Colwell (Scheme Member Representative).

**Also Present:** Phil Triggs (Tri-Borough Director of Treasury and Pensions), Billie Emery (Pension Fund Manager, Treasury and Pensions), Matthew Hopson (Strategic Investment Manager, Treasury and Pensions), Lee Witham (Director of People Services), Sarah Hay (Senior Pensions and Payroll Officer) and Toby Howes (Senior Committee and Governance Officer).

**Apologies for Absence:** Marie Holmes (Employer Representative), Christopher Smith (Scheme Member Representative) and Chris Walker (Scheme Member Representative).

#### 1 MEMBERSHIP

1.1 It was noted that Martin Colwell was deputising for Chris Walker.

#### 2 DECLARATIONS OF INTEREST

2.1 Terry Neville declared as a matter of record that he was a councillor at the London Borough of Enfield, however he was a scheme member of the Westminster Pension Fund.

#### 3 MINUTES

##### 3.1 RESOLVED:

That the Minutes of the meeting held on 5 September 2018 be signed by the Chairman as a correct record of proceedings.

## 4 PENSION ADMINISTRATION UPDATE

- 4.1 Lee Witham (Director of People Services) presented the report and stated that the issues affecting pension administration performance over the last two years had largely been overcome and the service was stable. Most key performance indicators were rated green. He advised that Hampshire County Council (HCC) was assuming payroll responsibilities from BT and this would go live on 1 December. Lee Witham stated that a rigorous testing of the HCC system had been undertaken and he was confident that the problems that had been experienced when BT had taken over payroll responsibilities would not be repeated. He also advised that there had been an issue concerning employees who had erroneously been opted out, however People Services was now getting in touch with people affected to rectify this error.
- 4.2 During discussions, the Chairman asked if there was a risk posed to the Council because of the opt out issue. Furthermore, she enquired if there was also a reputational risk to the Fund because of late or incorrect data that had been identified. With regard to the current membership of organisations in the Fund, the Chairman asked if any could potentially present a reputational risk to the scheme. She referred to paragraph 2.10 of the report relating to an employer who had submitted late data to the Fund and requested details to see if there was a pattern emerging of organisations that were more likely to submit late or inaccurate data, with the risks categorised accordingly and to identifying organisations who may need support in pension administration matters. The Chairman also asked if People Services had sufficient resources to carry out pension administration functions.
- 4.3 Members asked if errors were made because of the complexities involved in payroll returns. It was also asked if officers felt that the number of employees accidentally opted out could be higher than the figure recorded.
- 4.4 In reply to the issues raised by the Board, Sarah Hay (Senior Pensions and Payroll Officer) advised that in terms of opt out, the risk posed was to the employer rather than the employee. Employees affected had been advised that they could pay their pension contribution arrears over a longer period of time. Sarah Hay acknowledged that the late or incorrect data that had been identified from one organisation was a concern, however it was a relatively minor problem. The employer concerned could potentially be reported to The Pensions Regulator and fined on the basis of not providing sufficient monitoring. The issue had arisen because of the payroll system they used and payroll returns were complex in nature. This could be a particular issue for organisations involved in education where calculating whole time pay was complicated by the fact that some staff might only be paid during term time. Other organisations may also have a high turnover of staff. Sarah Hay agreed to provide information on organisations who may pose a reputational risk to the Fund, with the risk categorised accordingly. In respect of the four staff who had erroneously been opted out, Sarah Hay advised no other staff who had been classified as opted out had replied to People Service's query stating that this was an error, although they would automatically be re-enrolled if they were did not respond.

- 4.5 Lee Witham advised that BT was still required to produce half yearly returns for 2018-19 which would require some work. People Services needed additional resources to support this and two additional posts were sought that would also help the transfer of the payroll function to HCC. Further additional resources would be requested if it transpired that more support was required for the transfer to HCC.
- 4.6 The Chairman requested further information in respect of staff erroneously opted out of the pension scheme. She welcomed the overall improvement in pension administration performance and noted that only two key performance indicators were amber, with the rest green.

## **5 COMMUNICATION POLICY UPDATE**

- 5.1 The Board had before them the draft Communications Policy for the Pension Fund for comments. The Chairman commented on the need to avoid using white text on a dark background as this made it harder to read. She also suggested that the front page of the document be re-titled “Our Pension Scheme” to help make it more user friendly. The Chairman felt that it would be beneficial to have sections explaining how members can stay in touch and to have a glossary to explain terms. An explanation of the functions of the Pension Fund Committee and the Pension Board should also be included, as well information on life assurance.
- 5.2 Members asked if members were given an annual summary of where money was invested and what has been achieved. In respect of the Pension Fund Annual General Meeting (AGM), it was asked if this was well attended.
- 5.3 In reply to issues raised by the Board, Sarah Hay advised that pension regulations required that schemes had a communications policy and every effort was being made to ensure that it was user friendly. Steps were also being taken to increase engagement with scheme members. A newsletter was produced which also included information on the performance of the Fund, although it mainly focused on administrative matters, and this was also discussed at the AGM.
- 5.4 Lee Witham acknowledged that it would be useful to inform scheme members of where funds were being allocated and the performance of the Fund. The AGM was a useful exercise and two years ago it had been well attended, which was partly attributable to the number of complaints that had been raised. This year’s AGM was less well attended, with around 50 to 60 people, however this was likely due to the fact that the number of complaints had reduced significantly. Lee Witham advised that staff were informed of the pension scheme during their induction and he added that this would be raised again after the transfer of payroll services to HCC.
- 5.5 Phil Triggs (Tri-Borough Director of Treasury and Pensions) added that he would confirm the date of the next AGM shortly.
- 5.6 The Chairman requested that a draft of the Communications Policy be circulated to Members for further comments before another update at the next

meeting.

## **6 PENSION MEMBERSHIP UPDATE**

- 6.1 The Board noted the summary of the current membership of the Westminster Fund. The Chairman requested that an extra column be added to the table entitled 'Administration Risk' for future updates.

## **7 EQUITY DOWNSIDE PROTECTION**

- 7.1 The Board had before it a report summarising the different types of equity protection available and confirmation of the Pension Fund Committee's decision not to implement an equity protection strategy. Members commented that some Funds, such as the London Borough of Enfield, had different allocation of equities with a proportion of around 35%. Members asked why ensuring protection across the whole of the equity portfolio would be a considerable undertaking and whether the Pension Fund Committee received professional advice before making its decision.
- 7.2 The Chairman suggested that a graph illustrating the various asset allocations of the Fund would have been useful.
- 7.3 In reply to the issues raised by Members, Phil Triggs advised that a specialist would need to be appointed for each of the four separate equity managers, which would have made the task onerous. The Pension Fund Committee was also against the costs that would be involved in providing protection. Instead, £165m funds were to be transferred from equities to fixed income and multi asset credit mandates. The Pension Fund Committee had been advised by Deloitte and Treasury and Pension officers in making this decision.
- 7.4 It was noted that the second bullet point under paragraph 2.1 of the report should be amended to read "That the Pension Fund Committee's decision not to implement an equity protection strategy be noted." The Chairman requested that a future paper be produced in setting out the landscape in respect of the next triennial valuation.

### **7.5 RESOLVED:**

1. That the different types of equity protection strategies available be noted.
2. That the Pension Fund Committee's decision to not implement an equity protection strategy be noted.

## **8 ENVIRONMENTAL, SOCIAL AND GOVERNANCE MONITORING REPORT**

- 8.1 Phil Triggs presented the report that set out the Environmental, Social and Governance (ESG) issues for each of the Fund's fund managers. He stated that if the risks were monitored properly, ESG assets could enhance the returns for the Fund and also provide other wider benefits. Phil Triggs added that ESG should not be confused with ethical funding which fundamentally differed from ESG.

- 8.2 The Chairman asked for officers' views on the ESG report that had been produced by Deloitte. She noted that Legal and General were investing in build to rent properties in London. Members commented that potential investments in ESG needed to be considered carefully and seen in the context that the ultimate goal was to achieve the highest possible return in investments. Another Member suggested that ESG investments would become more widespread in future, however consideration needed to be given as to whether such a move should be undertaken sooner or later.
- 8.3 In reply to issues raised by Members, Phil Triggs compared the Fund to the London Borough of Hammersmith and Fulham's Fund, which was investing in a passive portfolio that had a low carbon index, although there were risks involved in such an investment.
- 8.4 Matthew Hopson (Strategic Investment Manager, Treasury and Pensions) advised that the report served as an introduction as to the kinds of ESG investments available, and if this was to be taken further, a more detailed report would follow. He added that Legal and General were well known for investing in ESG assets.
- 8.5 The Chairma noted that Westminster had some of the most polluted roads in the country and so assets, for example, in promoting low carbon may be desirable. She suggested that the Pension Fund Committee be asked to consider a more detailed report on ESG assets and consider areas that may be of benefit to Westminster people and the wider concerns of the Council. Members concurred that the Pension Fund Committee should also receive professional advice on this.
- 8.6 **RESOLVED:**
1. That the ESG monitoring report attached at Appendix 1 be noted.
  2. That the Pension Fund Committee be asked to consider a more detailed report on ESG assets and consider areas that may be of benefit to Westminster people and the wider concerns of the Council.

## **9 INFRASTRUCTURE INVESTMENT STRATEGY**

- 9.1 The Board noted a confidential report on the Infrastructure Investment Strategy.

## **10 QUARTERLY FUND PERFORMANCE**

- 10.1 Members noted that the Fund had outperformed its benchmark for the quarter up to 30 June. Members sought an update in respect of the Longview mandate. In respect of the London Collective Investment Vehicle (LCIV), it was noted that there were still vacancies at senior level and Members asked who was making decisions on investments.
- 10.2 The Chairman asked if fund manager fees had reduced in respect of assets

that had been transferred to the LCIV. She welcomed the Fund's achievement in being in the 13<sup>th</sup> percentile of the overall universe in terms of investment asset growth.

- 10.3 In reply to issues raised by the Board, Matthew Hopson advised that the same fund managers were being used who had previously been in place prior to funds that had been transferred to the LCIV and so this had not affected investment decisions. He confirmed that there had been fund manager fees savings in respect of the Longview and Baille Gifford mandates since being transferred to the LCIV.
- 10.4 Phil Triggs informed Members that the Chairman of the Pension Fund Committee had asked for further details on fund manager fees savings achieved since transferring some mandates to the LCIV.

10.5 **RESOLVED:**

That the performance of the investments and the funding position be noted.

## 11 FUND FINANCIAL MANAGEMENT

- 11.1 The Chairman sought the reasons for the spike in the bank balance regarding cashflow for July/August 2017. In respect of the Risk Register, she asked if there was a risk listed associated with Brexit and noted that one risk was rated red after taking the mitigating actions into account. The Chairman also asked how redundancies and early retirements were funded and when was the Discretionary Policies paper and progress on compliance with the TPR Code of Practice were due to be considered. Members asked if pension contribution rates were rising by a small amount.
- 11.2 In reply, Matthew Hopson advised that spike in cashflow in July/August 2017 was attributable to deficit recovery payments. Future reports would explain cashflow spikes in the narrative. Matthew Hopson advised that there were no concerns with the current cashflow position. In respect of pension contributions, these were based on an inflation rate of 2%, but this could be revisited. The Board noted that People Services were due to produce a report on compliance with the TPR Code of Practice at a future meeting.
- 11.3 Phil Triggs advised that risk 8 in the Risk Register covered risk in respect of Brexit. Redundancy payments were paid through the General Fund, whilst early retirements were funded through lump sum costs to the Fund. A Discretionary Policies paper was due to go to the Pension Fund Committee in December and the Board in January 2019. Phil Triggs welcomed any suggestions for topics for the Board's 2019/20 forward plan.

11.4 **RESOLVED:**

1. That the Risk Register for the Pension Fund be noted.
2. That the cashflow position and three year forecast be noted.

3. That the forward plan for 2018/19 and 2019/20 be noted.

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

12.1 The Chairman requested that Members discuss the training analysis form at the conclusion of the meeting.

The Meeting ended at 8.50 pm.

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

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