



CITY OF WESTMINSTER

MINUTES

Pension Fund Committee

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Pension Fund Committee** held on **Thursday 20th June, 2019**, Room 18.01, 18th Floor, 64 Victoria Street, London, SW1E 6Q.

Members Present: Councillors Antonia Cox (Chairman), Melvyn Caplan, Patricia McAllister and Eoghain Murphy.

Officers Present: Gerald Almeroth (Executive Director – Finance and Resources), Phil Triggs (Tri-Borough Director of Treasury and Pensions), Matthew Hopson (Strategic Investment Manager), Sarah Hay (Senior Payroll and Pensions Officer) and Toby Howes (Senior Committee and Governance Officer).

1 MEMBERSHIP

1.1 There were no changes to the membership.

2 DECLARATIONS OF INTEREST

2.1 There were no declarations of interest.

3 MINUTES

3.1 RESOLVED:

That the minutes of the meeting held on 14 March 2019 be signed by the Chairman as a correct record of proceedings.

4 PENSION ADMINISTRATION UPDATE

4.1 Sarah Hay (Senior Pensions and Payroll Adviser) presented the report and advised that Surrey County Council (SCC), who carried out pension administration services on behalf of the Council, had appointed an interim Pension Manager. Sarah Hay informed Members that the key performance indicators (KPIs) for 1 January 2019 to 31 March 2019 had slipped compared to earlier performance, however the KPIs for April 2019 had improved markedly, and the figures coming in for May 2019 were also promising. A meeting had taken place with SCC where the performance between January to March 2019 had been raised. SCC advised that the reason for the drop in

performance was due to a failure to check all parts of the workflow systems through which cases are allocated to SCC's Pensions Team. Subsequently, checks were now being carried out on all work systems resulting in the upturn in performance.

- 4.2 Sarah Hay advised that progress on data cleansing continued, however not at the pace that had been hoped. This was due to SCC significantly reducing the number of batches forwarded and the processes being used by JLT, who were carrying out the exercise. The Council's Pension Officer and the Pension Project Officer had met with SCC and JLT to discuss the backlog of outstanding cases and JLT had now appointed four additional checking resources. Members noted that JLT were due to report back to SCC on a revised timescale for processing and checking claims.
- 4.3 Sarah Hay confirmed that the Local Government Pension Scheme (LGPS) end of year file for 2018-2019 had been completed. In respect of the Western Union existence checking for pensioners based overseas, she advised that the first letters had been sent and the existence check visits would soon be underway.
- 4.4 During discussion by the Committee, Members queried whether there had been any pension overpayments in respect of overseas pensioners who may have since passed away and what was the procedure carried out when there had been overpayments. Members asked whether SCC's Pension Manager could be invited to attend a future Committee meeting. Members welcomed progress in respect of data cleansing. In respect of the KPI targets, it was asked if these were realistic and were there sufficient resources in place to achieve these. Members also asked whether SCC would be subject to any contractual penalties if performance targets were not met and how sure were officers that the KPI performances recorded were accurate.
- 4.5 In reply to issues raised by the Committee, Sarah Hay advised that there had been no significant pension overpayments. Where there had been overpayments, those under £100 were written off as the cost of pursuing these would not make the exercise worthwhile. For those exceeding £100, these would be followed up by contacting the next of kin requesting repayment. Sarah Hay confirmed that SCC's Pension Manager could be invited to attend a future meeting. She felt the KPI targets were realistic and had confidence in the senior pension officers at SCC. Matters such as tax calculations were however complex and conversations could be had with SCC about resourcing levels. Sarah Hay advised that contractual penalties could not be applied in respect to SCC in respect of performance targets as agreement between the Council and the SCC was through a Section 100 shared agreement. She added that the auditors had not raised any issues concerning recording of performance targets at their last visit to SCC.

5 GMP RECONCILIATION UPDATE

- 5.1 Sarah Hay presented the report and advised that HM Revenue and Customs were closing the section that issues Guaranteed Minimum Pension (GMP) notifications. As a result, organisations would be required to undertake their

own GMP reconciliation exercise. SCC and JLT had been working together to review and resolve where possible any GMP queries for the Fund. Sarah Hay advised that 80% of the Fund's membership queries had been completed to date.

- 5.2 Members sought clarification that only a small number would be affected and that mainly this was a reconciliation exercise. Sarah Hay confirmed that this was the case.

6 PINNACLE AND CONTINENTAL ADMISSION REQUEST

- 6.1 Sarah Hay introduced the report and explained that since the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) of CityWest Homes (CWH) staff to the Council had been carried out on 1 April, CWH had advised of two contracts that would be let out. These were Continental with regard to gardening services and Pinnacle concerning a staff member covering concierge services. These contracts were due to go live on 1 June.

- 6.2 Members asked whether the employer contributions would be large and were the bond and guarantee arrangements satisfactory.

- 6.3 In reply, Sarah Hay advised that the employer contributions were large because of their older age profile of the staff members concerned. She confirmed that she was content with both the bond and guarantee arrangements for both organisations concerned.

- 6.4 **RESOLVED:**

That the closed admission agreements for Pinnacle and Continental be approved on the basis that both organisations provide the Fund with the relevant security through a bond or guarantee.

7 FUND FINANCIAL MANAGEMENT

- 7.1 Matthew Hopson (Strategic Investment Manager, Tri-Borough Treasury and Pensions) presented the report and advised that in respect of the Risk Register for Investment Risk, Risk 10 concerning implementation of proposed changes to Local Government Pension Scheme (LGPS) pooling, the risk had actually decreased rather than increased as erroneously stated in the report. With regard to cashflow, the spike in March 2019 was attributable to a deficit recovery payment.

- 7.2 During discussions by the Committee, Members commented that the cash injections to the Fund were driven by the General Fund and the preferred cashflow position. Providing that the General Fund could afford it, it made sense to make such cash injections and represented an effective return to the Council. Members commented that they hoped that the employer contributions would decrease or at least remain the same following the next actuarial valuation. Further explanation as to why Risk 4 had become a greater risk on the Pension Administration Risk Register was sought.

Members also referred to the conviction of a former Pension Fund Director from a few years back and asked if there had been any further changes with regard to audit arrangements to ensure that this did not reoccur. Members added that there should be sound arrangements in place with regard to sign off.

- 7.3 In reply to issues raised by the Committee, Matthew Hopson advised that in respect of the cash injections to the Fund, these had been front loaded on this occasion. He also advised that Risk 4 on the Pension Administration Risk Register had been erroneously been assessed as becoming a greater risk when in fact this risk had reduced.
- 7.4 Gerald Almeroth (Executive Director – Finance and Resources) commented in respect of employer rates that it was desirable for these to reduce after the next actuarial evaluation and a balance always needed to be struck.
- 7.5 Phil Triggs (Tri-Borough Director of Treasury and Pensions) advised that a number of audit tests had been added in light of a former Director of Pensions' fraudulent activity that had led to his conviction. The authorisation process had also been reviewed and the fraudulent activity had been identified following the annual reconciliation. Phil Triggs advised Members that the Council was in the process of recovering the proceeds that had been taken during the fraud. With regard to sign off, this was also subject to internal audit controls, whilst the accounts were subject to external controls, effectively meaning there were at least two audit review processes every year.
- 7.6 **RESOLVED:**
1. That the Risk Register to the Pension Fund be noted.
 2. That the cashflow position , the rolling 12 month forecast and the three year forecast be noted.
 3. That the Forward Plan for 2019-20 for the Committee be noted.

8 QUARTERLY PERFORMANCE REPORT

- 8.1 Kevin Humpherson (Deloitte) presented the report and advised that the Fund had performed a return of 7.8% for the quarter to 31 March, which matched the benchmark. Over the 12 month period, the Fund had underperformed its benchmark by 0.6:%. Kevin Humpherson advised that a newly appointed fund manager, Pantheon, had issued a draw down request which now stood at £20m and this would rise to £70m over time.
- 8.2 Turning to the London Collective Investment Vehicle (LCIV), Kevin Humpherson advised that the LCIV had appointed Mike O'Donnell and Mark Thompson as the new Chief Executive Officer and Chief Investment Officer respectively. The lead manager for Hermes had taken extend leave, whilst the co-lead manager had left the organisation and this situation needed to be monitored.

- 8.3 The Committee expressed concern about the continuing underperformance of Majedie. Furthermore, there appeared to be an overreliance in the use of graduate trainees. Majedie's fees, which were now flat fees, were also quite high. It was queried why the Fund still continued to focus on a portfolio of UK assets rather than global, especially as many other LGPS schemes were looking to be less UK focused. Members asked if consideration was being taken to reduce the amount of assets with Majedie and what impact it would have on the Fund. Members queried whether Majedie would be further affected by a hard Brexit. It was also remarked that whilst Majedie was currently struggling, care must be taken to not move assets too swiftly as Majedie had performed well for long periods in the past. Members asked what remained for assets under Longview.
- 8.4 In reply to issues raised by the Committee, Kevin Humpherson advised that Majedie took a multi-manager approach and had a history of promoting from within. Majedie's exposure to UK assets were significant and there should be consideration on the proportion of assets with them as part of the Investment Strategy, although he did not think there was a need to move funds away at the moment. Consideration of the Investment Strategy would also take into account a hard Brexit scenario. The performance of Majedie had also been raised with the LCIV.
- 8.5 Phil Triggs advised the Committee that the LCIV had also raised concerns about Majedie's performance, as had fellow London borough pension fund directors. If assets were moved away from Majedie, he informed Members that this provided an element of risk for the London Borough of Hammersmith and Fulham (LBHF) as they would be only London borough holding assets under Majedie. In reply from Members as to whether the same would apply to the Fund if LBHF decided to move assets away from Majedie, Kevin Humpherson advised that being the sole Fund remaining could cause some delay in receiving all assets if the Fund decided to terminate in the future.

8.6 **RESOLVED:**

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

9 EXIT CAP CONSULTATION

- 9.1 Phil Triggs presented the report and advised that the Government was consulting on plans for a proposed cap of £95,000 cap on exit payments in the public sector. People Services had undertaken an assessment of the potential impact on staff which indicated that long serving staff on middle incomes would be unduly affected by the changes.
- 9.2 During Members' discussions, it was commented that such a proposal could inhibit local authorities in their ability to restructure and details were sought as to how it would be applied. Members commented that although it was recognised that the proposals were designed to reduce large pay outs to senior staff who had only been with the Council for a short while, it would also affect staff that it did not intend to, such as long serving staff on more modest incomes. Members asked what the effects would have on early retirement.

The Chairman requested that the draft response to the proposals be circulated to the Committee.

- 9.3 In reply to Members' questions, Phil Triggs stated that the current guidance for the proposals did not set out clearly how they would be applied. He advised that if the proposals did come into effect, there would be fewer people taking up the option of early retirement.

- 9.4 Gerald Almeroth advised that the draft response to the proposals could be circulated to the Committee in July.

9.5 **RESOLVED:**

That the report be noted.

10 MCCLOUD, COST CAP AND VALUATION

- 10.1 Phil Triggs presented the report and advised that the LGPS cost cap had been suspended pending the outcome of the McCloud case. The Government was also consulting on proposals for LGPS funds to undertake a quadrennial as opposed to a triennial actuarial valuation, in line with other public service pension schemes. Phil Triggs stated that he would circulate the Council's response to the consultation to the Committee.

10.2 **RESOLVED:**

1. That the report and the potential implication to the Pension Fund be noted.
2. That the consultation on the actuarial process in Appendix 1 of the report be noted.

11 ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

- 11.1 There was no other business.

12 EXCLUSION OF PRESS AND PUBLIC

12.1 **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 the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

Items 13. 14 and 15.

13 MINUTES

13.1 RESOLVED:

That the confidential minutes of the meeting held on 14 March 2019 be signed by the Chairman as a correct record of proceedings.

14 VOLUNTARY SCHEME PAYS REQUEST

- 14.1 The Committee considered a confidential report on a voluntary schemes pay request.

15 FUND COST SUMMARY

- 15.1 The Committee considered a confidential report on the Fund's costs.

15.2 RESOLVED:

That the Pension Fund costs for the three year period to 31 March 2019 and the associated LCIV savings and costs be noted.

16 INVESTMENT STRATEGY CONSIDERATION

- 16.1 Kevin Humpherson (Deloitte) presented the report and advised that the Fund's current asset allocation was 65% in equities, 20% in fixed income, 10% in property and 5% in infrastructure. By way of comparison, the equities allocation had been 75% ten years earlier. Kevin Humpherson advised that the estimated median return for the current allocation would be 5.4% per annum. The last valuation had shown that the Fund was 80% funded as of 31 March 2016, and the Fund's actuary had estimated that the funding level would have risen to 95% as of December 2018. Kevin Humpherson advised that the Fund was expecting a £150m payment over the next 12 months through a forward funding agreement that was expected to take the overall funding position into surplus.
- 16.2 Kevin Humpherson then drew Members' attention to the three potential future investment strategic options. The first option involved using the funds to invest across the current strategic asset allocation. However, this option exposed the Fund to a high equity risk and there would also be significant transaction costs investing across all asset classes. The second option was to de-risk the Fund by investing in fixed income and the estimated return would be 5.2 % per annum, with a standard deviation of 11.3%. The third option involved de-risking the Fund further by investing solely in the buy and maintain credit mandate, with an estimated return of 5.1% and a standard deviation of 11.1%.
- 16.3 Members asked when the £150m payment through a forward funding agreement was likely to be completed. Clarification was also sought as to whether option 3 was considered the preferred option.
- 16.4 In reply to Members' questions, Kevin Humpherson confirmed that he considered option 3 as the preferred option. In respect of the forward funding agreement, Matthew Hopson advised that the Fund had already received

£26m, whilst the remaining amount to take the payment up to £150m was expected in April or May 2020.

- 16.5 The Committee agreed option 3 as the future strategy investment option using Insight's buy and maintain credit mandate. The Chairman requested that the Committee receive training on this area.

16.3 **RESOLVED:**

1. That the strategy consideration paper prepared by the City Council's investment advisor, Deloitte, be noted.
2. That option 3 be approved as an outline investment strategy option for the forward funding receipt, pending clarification of future funding decisions taken by the Cabinet.

The Meeting ended at 8.58 pm.

CHAIRMAN: _____

DATE _____