MINUTES

CITY OF WESTMINSTER

Pension Fund Committee

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Pension Fund Committee** held on **Tuesday 20th September, 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: George Bruce (Tri-Borough Director of Treasury and Pensions), Sarah Hay (Pensions and Payroll Officer), Nikki Parsons (Pension Fund Officer), Lee Witham (Director of People Services and Toby Howes (Senior Committee and Governance Officer).

Also Present: Marie Holmes (Pension Board Representative), Susan Manning (Pension Board Representative), Jason Bailey (Pension Services Manager, Surrey County Council), Graeme Muir (Barnett Waddingham) and Alistair Sutherland (Deloitte).

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 **RESOLVED:**

That the Minutes of the meeting held on 21st June 2016 be signed by the Chairman as a correct record of proceedings.

4 TRIENNIAL VALUATION UPDATE

4.1 Graeme Muir (Barnett Waddingham) provided the Committee with an update on progress with the 2016 triennial valuation with a presentation. He began by advising that the Local Government Pension Scheme (LGPS) Regulations stated that the triennial funding valuation was required to certify the levels of employer contributions to secure the solvency of the Fund and the long term cost efficiency of the Scheme. The triennial valuation must also have regard to the Funding Strategy Statement as determined by the administrating authority, which in this case was the Council. Graeme Muir stated that Barnett Waddingham, as the Fund's actuary, played the role of overseeing the triennial valuation.

4.2 Graeme Muir advised that the triennial valuation took place in three steps, these being:

- Step 1: Projection of all possible benefit payments for each scheme member
- Step 2: Attach probabilities to each possible payment to get "expected" payments
- Step 3: Discount "expected" payments to obtain value.

4.3 Members noted that fundamentally, the triennial valuation needed to determine how much money needed to be put into the Fund to support the projected future pension payments. Graeme Muir stated that amongst the challenges of the 2016 valuation was to take into account the new guidance from the Charted Institute of Public Finance and Accountancy, which reminded administering authorities that securing solvency and long term cost efficiency was a regulatory requirement, whereas a constant as possible contribution rate remained only a desirable outcome. Furthermore, Graeme Muir advised that administering authorities in particular needed to adhere to Section 13 of the Public Services Pension Act 2013, which requires an independent review of the valuation and contribution rates to ensure that they are appropriate and for remedial action to be taken where the review identifies any problems. Graeme Muir emphasised the need to ensure that a plan was in place and there may be some "outliers" that could be considered abnormal when compared to other Funds.

4.4 Graeme Muir advised that Funds may still have their own bespoke funding plan, however there was a need to be mindful of key performance indicators (KPIs) measures, and the Section 13 valuation. In the longer term, it was anticipated that Funds would gravitate towards the middle, with Funds being deemed "average."

4.5 Graeme Muir then provided details of the financial assumptions of the triennial valuation. These assumptions used market indices and the Fund's model used assumptions assessed over a six months period spanning valuation date to give stability, a method known as "smoothing". A retail price index inflation rate of 3.3% per annum had been determined as the smoothed rate as of 31st March 2016. Members noted that the 2013 triennial valuation assumed a rate of 0.8% per annum below the RPI, whilst the 2016 valuation proposed an increase of 0.9% below RPI. A rate of 2.4% per annum was the assumed consumer price index (CPI) as a starting point. With regard to long term salary increase assumptions, the 2016 proposal was 1.5% per annum more than CPI as of 31st March 2016, compared to 1.5% per annum for 2013. Turning to the discount rate, Graeme Muir advised that 2.4%, 3,3% and 3.8% per annum were the smoothed rates for gilts, bonds and equities respectively as of 31st March 2016. The prudence allowance for the discount rate was likely to be in the range of 0.5% to 1.5%.

4.6 Graeme Muir advised that the 2013 valuation had determined a whole funding basis of 74% for the Fund, with the Council's at 70%, meaning there was a deficit of around £300 million. The 2016 indicative results had the whole funding basis of between 75% to 80%, with the Council deficit now around £300 million to £350 million. Graeme Muir stated that the key issues revolved around reducing the Council deficit and how quickly this can be undertaken and ensuring to avoid the more serious Scheme Advisory Board and Government Actuary Department "flags." Following further funding discussions and the review of the Funding Strategy Statement, Graeme Muir advised that the triennial valuation was due to be agreed and signed off by 31st March 2017.

4.7 George Bruce (Tri-Borough Director of Treasury and Pensions) added that modelling was being undertaken with a view to paying off the Council's debt in 20 years and he advised that paying the debt off more quickly would save the Council money in the long term.

4.8 During Members' discussions, it was queried whether there would be any issues in respect of the "smoothing approach." Members also sought further explanation as to the reasons why a 3.3% per annum RPI inflation rate had been assumed, as inflation had been closed to 0% in the last year or so.

4.9. In reply, Graeme Muir advised that as long as smoothing was not applied inconsistently, then no issues should arise from this approach. Smoothing was a common approach taken by Barnett Waddingham who also accounted for 25% of the LGPS market. In respect of the RPI inflation rate, Graeme Muir advised that the 3.3% per annum assumption was as an average rate over the next 20 years.

4.10 The Chairman thanked Graeme Muir for the update and requested a further update on the triennial valuation at the next meeting of the Committee on 15th November 2016.

4.11 **RESOLVED:**

1. That the indicative timetable for the triennial valuation process be noted; and

2. That the verbal update provided by Barnett Waddingham be noted.

5 PENSION BOARD ANNUAL REPORT 2015-2016

5.1 Nikki Parsons (Pension Fund Officer) presented the report which provided details of the work and activities of the Pension Board in the last year and to demonstrate its compliance with its terms of reference. Following the report's presentation to the Committee, it was to be submitted to Full Council for formal approval. Nikki Parsons also sought the Committee's approval for a joint meeting to be arranged with the Pension Board to review each respective roles. She suggested that a representative from both the Committee and the Board meet to agree an agenda for the joint meeting.

5.2 The Committee agreed that a joint meeting take place with the Pension Board. Members agreed that Board Members be invited to the Pension Fund Committee meeting on 21 March 2016.

5.3 **RESOLVED:**

1. That the contents of the Pension Board Annual Report 2015-16 be noted prior to its submission to Full Council; and

2. That a joint meeting of the Pension Fund Committee and the Pension Board take place on 21 March 2017 to review their respective roles.

6 PENSION FUND ADMINISTRATION UPDATE

6.1 Jason Bailey (Pension Services Manager, Surrey County Council) provided the first update on this item in respect of progress in addressing pension administration issues. He advised that a meeting had taken place with the Chairman, Council officers and Surrey County Council officers on 3rd August 2016 to discuss this topic and in particular the fact that the pension administration performance was not meeting a number of its KPIs. The problems being experienced were attributable to both BT issues of a technical nature and due to there being an insufficient number of suitably trained staff. Following the meeting, Jason Bailey reported that progress had been made in a number of areas, with most matters largely resolved and he anticipated seeing significant improvements for the KPIs in quarter 3 of 2016/17 and was hopeful that most targets would be met. He advised that there was a particular focus in ensuring that retiring staff had their first pension payments made promptly. Jason Bailey also informed Members that there would be more online services available in future.

6.2 Lee Witham (Director of People Services) added that BT also needed to be taken to task about the issues that had arisen. However, the Council was working collaboratively with Surrey County Council and BT in resolving these issues.

6.3 Sarah Hay (Pensions and Payroll Officer) advised that she would be discussing pension administration arrangements with Surrey County Council officers, the auditors and her colleague Kim Edwards (Senior Payroll, Pensions and Establishment Advisor) on 21st September 2016. She would also be having a follow up meeting at Surrey County Council with Kim

Edwards on 26th October 2016. Jason Bailey added that he was comfortable to have the auditors look at the pension administration processes.

6.4 During Members' discussions, Members asked if there was any action the Council could take that could assist Surrey County Council. It was queried whether the Council and individual pension scheme members could receive compensation in respect of the pension administration performance and in instances where pension scheme members had received their first pension payments late. The Chairman enquired whether the KPIs performance would be reported regularly to the Committee and were these the most appropriate KPIs.

6.5 In reply to issues raised by Members, Jason Bailey advised that some of the problems experienced were attributable to some employers in the pension scheme, such as schools, who used their own payroll providers and who did not provide the relevant details in time. He felt that the development of an online portal would help address the matter. In respect of KPIs, Jason Bailey advised that these were derived from the KPI standards that had been set nationally, and other KPIs, such as contact with pension scheme members, could be added.

6.6 Lee Witham added that the KPIs were also relevant to the Section 101 agreement the Council has with Surrey County Council and were consistent with what the auditors considered important. He felt that most of the relevant KPIs were already included, however additional KPIs could be included in future. In respect of compensation, Lee Witham stated that such matters could be discussed as part of the commercial review and contract negotiation with BT.

6.7 Sarah Hay added that there had been no requests for compensation from pension scheme members to date. She felt that Surrey County Council had made progress in improving their performance and that a number of issues had been traced back to BT.

6.8 Sarah Hay then referred to the paper on pension auto re-enrolment. She advised that not all those who should be auto re-enrolled into the pension scheme had been. Lee Witham added that the Council was challenging BT's auto re-enrolment list and was working collaboratively with BT and Surrey County Council. Members noted the annual benefits statement report and that these statements were in the process of being sent out. Members also noted the paper on the internal audit update.

6.9 The Chairman sought clarification as to the reasons why BT were not auto re-enrolling everyone who should be. In reply, Jason Bailey advised that it was due to the lack of data for both new joiners to the scheme and also those leaving it. The other tri-borough partners also had also experienced problems in coping with having all the correct data. However, Jason Bailey was confident there would be significant improvement and Surrey County Council had appointed a new Team Leader to the pension administration scheme team.

6.10 The Chairman stated that the KPIs should be relevant to Westminster and so should be modified accordingly where appropriate. He requested that the KPIs performance be reported every quarter and include other KPIs identified as relevant, and any others considered irrelevant to be removed. The Chairman also requested that an appropriate representative from BT attend a future meeting of the Committee for the pension fund administration item. He also suggested that a BT representative be invited to the next Pensions Annual General Meeting.

7 ASSET POOLING AND LONDON COLLECTIVE INVESTMENT VEHICLE UPDATE

7.1 George Bruce presented the report and confirmed that the London Collective Investment Vehicle (CIV) had negotiated a reduced fee scale in respect of the Legal and General passive mandate, which would result in a saving of approximately £170,000 for the Westminster Fund. This represented a significant reduction of around 75% and was backdated to 1st July 2016. In respect of the Insight Investment mandate, this contract had been extended until 2016 as agreed by Committee in November 2015, as it had been hoped that more opportunities would be offered by the London CIV. However, until the CIV's fixed income offering was known, it was desirable to extend the Insight contract until the end of 2017, and the approval of the Committee was sought for this extension. George Bruce added that this was subject to it being possible under the Council's procurement rules, and if it was not, then he recommended to transfer both the Corporate and gilt mandates to the Insight UK Corporates Al Maturities Bond Fund. George Bruce confirmed that the Baillie Gifford mandate had been transferred to the London CIV in quarter 2 of 2016-17.

7.2 Members asked whether the total fees savings had been identified and did the London CIV yet have any proposals in respect of property assets.

7.3 In reply, George Bruce advised that only the fees savings from the Baillie Gifford and Legal and General mandates had been realised to date, however negotiations on fees were also taking place in respect of the Majedie and Longview mandates. However, he anticipated that the total fee savings would amount to at least £1 million. George Bruce advised that the London CIV was undertaking its asset allocation in stages and property assets were among one of the later stages. He commented that it was probable that there would not be any moves to acquire property assets until mid or late 2017.

7.4 The Chairman advised that officers and Deloitte were investigating whether to retain a performance related management fee or move to a flat management fee in respect of the Majedie mandate and a report on this would follow at the next meeting. The Committee agreed to extend the Insight investment mandate to the end of 2017.

7.5 **RESOLVED:**

1. That the contents of the report be noted.

2. That the transfer of the Majedie portfolio to the London CIV retaining a combined AuM (assets under management) and performance related fee be agreed, subject to clarification on the impact of the termination of the current performance period; and

3. That the extension of the current Insight mandate by a further 12 months to the end of 2017 be agreed and that if this is not possible within Westminster's procurement rules, then it be agreed to transfer both the Corporate and gilt mandates to the Insight UK Corporates All Maturities Bond Fund.

8 PENSION FUND COSTS AND FEES BENCHMARKING

8.1 George Bruce presented the report and advised that the Fund's administration and governance costs represented £38.98 per member per year, below the inner London average of £42.50, however fund management costs represented £328 per member, above the inner London average of £206. Members noted that the higher than average fund management costs were mainly attributable to the performance related management fee in respect of the Majedie mandate, which accounted for 58% of Westminster's costs. George Bruce advised that the Department for Communities and Local Government also provided data comparing fund manager costs as a percentage of asset value, which for the Westminster Fund represented 0.48% in 2014//15, compared to the average cost of 0.34%. Members noted that this report would be put to the Committee on an annual basis.

8.2 The Chairman requested that the 2012 costs and fees and aggregate figures be circulated to Members and he added that it would be beneficial to compare costs and fees with the Hammersmith and Fulham and the Royal Borough of Kensington and Chelsea funds.

8.3 **RESOLVED:**

That the contents of the report be noted.

9 FUND MANAGER MONITORING MEETINGS

9.1 Nikki Parsons presented the report and advised that officer lead meetings with investment managers on a semi-annual basis would take place to ensure that the managers' processes were consistent with those when they were appointed. These meetings would also be attended by tri-borough officers. Nikki Parsons stated that it was also proposed that an annual fund manager monitoring day takes place where all fund managers are invited to update the Committee and officers on their respective mandates. George Bruce added that feedback from the officer lead meetings would be provided to Members.

9.2 The Committee welcomed the proposals on the annual fund manager meeting and concurred that it would be desirable to take place either at a location in the City or at the Deloitte office. The Chairman requested that the annual fund manager monitoring day be arranged to take place on a Friday in December on a date to be confirmed, and that a representative from the Pension Board also be invited to attend.

9.3 **RESOLVED:**

1. That the proposed annual fund manager monitoring arrangements be agreed; and

2. That it be agreed that the annual fund manager monitoring meeting take place on a Friday in December 2016.

10 FUND FINANCIAL MANAGEMENT

10.1 Nikki Parsons presented the report and confirmed that the Fund complied with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. In respect of cashflow monitoring, Members noted that the dis-investment of £4.5 million had taken place in respect of the Baillie Gifford and Longview mandate in order to meet the cashflow requirements. The actual performance fee payable this year had also been identified as £2.7 million less than originally estimated and so the forecast for the remainder of the year had been duly adjusted. Nikki Parsons advised that a new risk had been added to the risk register, Risk 14: Operational: Governance – London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence fund managers do not achieve their targets.

10.2 Members referred to risk 9 in the risk register: Strategic: Regulation – Introduction of European Directive Markets in Financial Instruments Directive (MiFID) results as a restriction of the Fund's investment options and an increase in costs and asked whether the mitigating action of a Knowledge and Skills Policy was in place for Members and officers. Another Member commented that European Union (EU) procurement regulations in the UK could disappear in the next few years due to costs.

10.3 In reply, George Bruce advised the MiFID was likely to be significantly watered down, which would lower the risk considerably. He added that the Government may continue to mirror EU procurement regulations even after the UK left the EU.

10.4 **RESOLVED:**

1. That the updated risk register for the Pension Fund be approved.

2. That the Fund's compliance with the limits specified in Schedule 1 of the LGPS (Management and Investment of Funds) Regulations 2009 be noted; and

3. That the cashflow position of the Fund be noted.

11 QUARTERLY PERFORMANCE OF THE COUNCIL'S PENSION FUND

11.1 Alistair Sutherland (Deloitte) updated the Committee on investment performance for quarter 1 of 2016-2017 and advised that currency had been a key factor in influencing returns which had contributed to active fund managers underperforming. Members noted that Majedie, who had performed disappointingly, had subsequently recovered.

11.2 In reply to the Chairman's query as to further reasons why all the active managers had underperformed, Alistair Sutherland advised that the markets had reacted in a way that had not been anticipated. However, there were no consistent underlying themes as to the reasons for the underperformance and Alistair Sutherland felt that this was due to individual stock issues.

11.3 **RESOLVED:**

That the contents of the paper, the performance report from Deloitte and the current actuarial assumptions and valuation be noted.

12 INVESTMENT STRATEGY OPTIONS

12.1 Alistair Sutherland presented the report and advised that Deloitte were querying fund managers as to why they were holding bonds. Consideration also needed to be given as to the whether the Fund's Investment Strategy was fit for purpose.

12.2 Members queried whether there was a regulatory requirement to have a certain proportion of gilts assets in a Fund. The Chairman sought views on the equity/bond asset class mix for the Fund and would the London CIV would give limitations in this respect.

12.3 In reply, Alistair Sutherland suggested that there should be less reliance on equities. George Bruce stated that efforts would be made to moderate the proportion of equities to around 65% in the Fund and he confirmed that there was no regulatory requirement regarding the proportion of gilts assets. He advised that the London CIV would not be able to deliver everything that was desirable to the Fund in a short period of time, however it was important that the Council was in a prominent position to be able to influence the CIV.

12.4 **RESOLVED:**

1. That the contents of the report be noted; and

2. That it be agreed that an Investment Strategy Review be undertaken once the results of the 2016 actuarial valuation are known.

13 PENSION FUND INVESTMENT ADVISER CONTRACT UPDATE

13.1 Nikki Parsons advised the Committee that the current investment adviser contract with Deloitte was to expire on 31st October 2016. The re-procurement of the contract was to be conducted using the National LGPS Framework for

Pension Fund Investment Advisers, as agreed by the Committee on 21st June 2016. A six months extension to the existing contract with Deloitte up to 30th April 2017 had subsequently been agreed by the Westminster Gate Review Panel on 6th September 2016 to enable sufficient time for a thorough re-procurement process to be conducted. Nikki Parsons then referred Members to the timelines for the new Pension Fund Investment Adviser contract and advised that officers would evaluate the tenders in October prior to a presentation from the tenderers to the Committee and officers.

13.2 Members agreed to the Chairman' suggestions that the investment adviser presentations to the Committee and officers take place on 4th November 2016, with the top three scoring organisations from the October evaluation being invited to present. Members also agreed to the Chairman's suggestion that the Chairman of the Pension Board or a Deputy also be invited to attend the presentations in an observational capacity.

13.3 **RESOLVED:**

That the contents of the report be noted.

14 PENSION FUND COMMITTEE FORWARD PLAN

14.1 The Chairman requested that Pension Administration KPIs be added to the Forward Plan as a standing item.

The Meeting ended at 9.17 pm.

CHAIRMAN: ____________________ **DATE** ____________________