Pension Committee

Meeting held on Tuesday, 19 September 2023 at 10.00 am in Council Chamber, Town Hall, Katharine Street, Croydon CR0 1NX

MINUTES

Present: Councillor Callton Young OBE (Chair);
Councillor Clive Fraser (Vice-Chair);
Councillors Simon Brew, Stuart Collins, Patricia Hay-Justice, Yvette Hopley, Endri Llabuti and Alasdair Stewart

Co-opted Members: Mr Peter Howard

Also Present: Councillor Appu Srinivasan, Matthew Hallett (Acting Head of Pensions and Treasury), Gillian Phillip (Pensions Manager), Mike Ellsmore (Chair of Pension Board), Robbie Sinnott (Mercer), Jane West (Corporate Director of Resources & S151 Officer), Ian Talbot (Pension Fund Investment Manager)

Apologies: Councillor Karen Jewitt and Ms Gilli Driver

PART A

84/23 Disclosure of Interests

The Committee agreed that their register of interest forms were up to date.

85/23 Urgent Business (if any)

There were no items of urgent business.

86/23 Conflicts of Interest Policy

The Acting Head of Pensions and Treasury introduced the item and explained that the council was required to draft its own conflict of interest policy. Following feedback from members, officers reviewed the conflict-of-interest policy and the legislation section of the report had been moved to an appendix so that the report could be more concise.

The Acting Head of Pensions and Treasury stated that the policy had been sent to the Committee for consideration in august and officers had not received any feedback on the revised report.

The report explained why the conflict of interest policy was needed, who the conflict of interest applied to, what was considered a conflict and how conflicts are managed and the operational procedures behind it.

Members believed that it would be beneficial for Members of the Pensions Committee and the Pensions Board to receive training on the conflicts of interest policy and that this training session should be conducted by a third party.

Resolved:

1.1 To agree to the recommended Conflicts of Interest Policy.

87/23 Strategies and Policies required for the Fund

The Acting Head of Pensions and Treasury introduced the item and explained that there were three sets of regulations which underpinned the reason why policies were required for the fund. The regulations were the Public Service Pensions Act (2013), the Local Government Pension Scheme Regulations (2013) and the Local Government Investment Regulations (2016).

The good governance review was conducted by the Scheme Advisory Board (SAB) and it was thought that this would come into regulation so policies had been devised in advance of this occurring.

In response to questions from members officers informed the Committee that:

- Officers would re-assess the governance review conducted by AON.
- Officers were still working on the constitutional changes that had been agreed at a meeting in October 2022. There would be a constitution working group meeting in the evening where the changes would be considered, the changes would then be recommended to go to Audit Committee and then to Full Council before the changes could be implemented.
- Hymans conducted the good governance review on behalf of the SAB, officers felt as though they were ahead of schedule as the good governance review was yet to be put into legislation.

The Pensions Administration Strategy was agreed by the Committee in June 2023 subject to consultation. The Pension Administration Strategy had been out for consultation and there had been no feedback therefore officers had not presented the report to the Committee at the current meeting. Committee were asked to confirm agreement to the Pension Administration Strategy as presented at the June 2023 meeting.

Resolved:

1.1 To note the contents of the report.
1.2 To agree the Pension Administration Strategy.

88/23 Fund Representation Policy

The Acting Head of Pensions and Treasury introduced the item and explained that the Fund Representation Policy was one of the policies that would come out of the SAB good governance review.

The Fund Representation Policy lists the Members of the Pensions Committee and the Pensions Board, their voting rights and the reasons behind the structure of representation.

In response to questions from Members officers informed the Committee that:

- The Board did not have any significant comments on the Fund Representation Policy when it was presented to them at a meeting in July. The changes to the voting procedures would still need to go through the Council's governance structure before implementation.
- The employer representative was agreed at Pensions Committee meeting in October 2022, however the constitution had not been updated to reflect the changes.
- There was no confirmed date on when the EDI policy would be brought to the Committee.
- The SAB advised DLUC on the scheme policy for the Local Government Pension Scheme (LGPS). The Pensions Regulator (TPR) was concerned with the administration and governance issues within the LGPS.
- The SAB recommended fair representation on the Pension Committee and Board.
- The staff side representative was nominated by the trade union, and they are unable to vote until the changes had been ratified by the constitutional working group.
- The policy would need to be reviewed annually from the date that the Committee agreed to the Policy.

Resolved:

1.1 To agree the Representation Policy.

89/23 Risk Management Policy Review

The Acting Head of Pensions and Treasury introduced the item and explained that the Risk Management Policy was agreed by the Committee in March 2020. In their Governance Review Aon believed that the current Risk Management Policy was fit for purpose, therefore the policy had not been amended since it had been previously agreed.

Resolved:

1.1 To agree the reviewed Risk Management Policy to be adopted by the Fund.

90/23 Review of Risk register

The Acting Head of Pensions and Treasury introduced the item and explained that following a comprehensive review of the risk register three of the risks had been removed. The risks that had been removed were the London CIV recruitment difficulties as this was now considered a stable structure; the Russian invasion of Ukraine as this had now become part of the normal geopolitical environment and a liquidity risk in relation to inflation.

In response to questions from members officers informed the Committee that:

- The risk regarding the dispute concerning contributions had been on the risk register since 2014, officers believed there would be a resolution made in December 2023. Officers would have to bring this topic back to the Committee before it could be considered resolved.
- The 2019/20 accounts had been updated with the necessary adjustments and the accounts were being reviewed by the auditors. Officers has a timetable for when these accounts would be signed off. The other accounts were still outstanding, and this was still a risk as there were four years of accounts yet to be signed off.
- The target was for the first three years of outstanding accounts to be signed off by June 2024. Officers were optimistic that the 2019/20 accounts would be signed off after the October Audit and Governance Committee meeting.
- The belief was that once the 2019/20 accounts were signed off it should become easier to get the other years accounts signed off.
- There was a 50/50 contribution option available to the members of the Pension Fund. In terms of cash flow, if significant number of members opted out of the pension scheme, then this would have a detrimental effect on the amount of cash coming into the scheme. The scheme had enough cash available at the moment, which was still being invested on a short-term basis and the Fund was currently receiving over a 5% return these investments.
- Officers had not seen a significant number of members who had opted out of the pension scheme.
- Members could always choose to opt back into the pension scheme if they chose to opt out. Officers had to operate auto enrolment every three years which would pick up any members who had opted out and they would be automatically brought back into the scheme.
- Officers were comfortable that the Fund’s banking arrangements were secure amidst the risk of cyber fraud. All of the pension payments were made through the BACS system which had up to date cyber security.

Resolved:

1.1 To note the contents of the Pension Fund Risk Register.

91/23 Administration Report

The Pensions Manager introduced the item and explained that the report detailed the pension administration from May to July 2023 and the Pensions team had mostly been working on their end of year processes. The team had updated all pension contributions and pay, up front CARE evaluation and annual benefit statements and there was one employer who had failed to submit the information on time.

The Pensions Manager stated that the pensions team had been investing a lot of time in developing bulk processes to run multiple leaver calculations at once. This enabled the pension team to successfully carry out in excess of 500 leaver calculations throughout August just through bulk processes.

The Pensions Manager informed the Committee that the team had been working with the fraud team to introduce monthly mortality screening. The system had been tested recently and had produced some positive results, notifying officers of deaths that they had not been aware of for members who had passed several years ago.

The Pensions Manager stated that there was work being carried out to streamline the mortality screening process.

In response to questions from members officers informed the Committee that:

- It was highly unusual that officers would not be informed of a death of a member of the scheme. Usually the bank would return money which had been contributed by a member of the scheme who had passed away however in the case of significant over payment then the fraud team would be involved in resolving the issue.
- The cases which contributed to the pensions teams KPI's were the more complex cases where employers did not meet deadlines for the submission of information.
- There was a change in the GAD factors which impacted interfund adjustments between pension funds. This required officers to put their leavers on hold while they waited for interfund adjustments to come through which created a backlog. There had been some discussion with team leaders to improve the structure in which the work that was carried out to improve the KPI percentages in future.
- There was some internal approval required in order to spend the money to improve the members self-service tool. The software provider (Heywoods) intended to implement the improvements in phases, and officers had to wait for confirmation on a date for the work to commence.

- There had been one or two occasions where the wrong information had been provided but it had been simple to resolve and generally the system worked quite well.

Resolved:

1.1 To note the Key Performance Indicators and the performance against these indicators set out in Appendix A to the report.

92/23 Breaches of the Law Log

The Acting Head of Pensions and Treasury introduced the item and explained that there were three items on the benefits statements which had been there for several years. The outstanding accounts were another issue on the log and there was a new item relating to the employer's mandatory discretions policy. The Council had been using the Administering Authority's policy in its place but they were not quite the same, so this had been reported as a breach and officers had been instructed to draft a policy for the Council.

Resolved:

1.1 To note the contents of the Pension Fund Breaches Log, Appendix A.

93/23 Update of training

The Acting Head of Pensions and Treasury introduced the item and explained that Members should check that officers had accurately recorded the training they had completed.

The Acting Head of Pensions and Treasury stated that all members were signed up to the Hymans portal where they could complete online training modules in their own time.

In response to questions from members officers informed the Committee that:

- Officers would speak to the London CIV for training on the multi asset credit fund investment strategy.

Resolved:

1.1 To note the contents of the Pension Committee Training Log.
1.2 To note the mandatory training items.

94/23 London CIV Savings Report

The Acting Head of Pensions and Treasury introduced the item and explained that the LCIV provided the Council with a savings report every year. The report stated that the London CIV had saved the Fund £564,000 in 2022/23. These savings were in relation to the standard rate charges that investment managers would charge and officers would normally be able to negotiate a discount so the figures quoted in the report were treated with some scepticism.

The Acting Head of Pensions and Treasury informed the Committee that around 50% of the funds assets were invested with the London CIV and over the coming years officers would seek to move more of their listed assets into the London CIV.

In response to questions from members officers informed the Committee that:

- For the assets that officer had proposed to move into the CIV, officers could provide Members with the fees that are currently being paid to the fund managers and the fees that will be saved by investing with the CIV. Any comparison would be difficult however as transfers would not normally be exactly like-for-like.
- In the Chancellors Mansion House speech in July, he championed the pooling of assets, and they were looking to mandate funds to pool more of their assets by March 2025.
- There was a consultation being conducted and the CIV was planning to issue a reply to the statement. The CIV's response explained that believed it was not appropriate to force Funds and set deadlines.
- The Fund was aligned with the proposals already as it had invested 10% into private equity and 5% into levelling up assets but officers were not comfortable with this being mandatory.
- Mercer had released a briefing note online which detailed their response to the speech. Mercer's response did not state whether pooling was right but rather what factors would need to be considered if there was more pooling introduced.
- There was a range in the amount that other boroughs had invested with the CIV. Croydon Council was roughly in the middle in terms of the amount invested in the CIV.
- Officers would have to conduct Task Force on Climate-Related Financial Disclosures (TFCD), the CIV would provide a service in which they would analyse the funds listed assets and provide the fund with a starting position.
- TFCD reporting will probably be implemented in 2025 for LGPS Funds.
- There were 86 LGPS funds in England & Wales and the size of the pools was proposed to be around £50 billion, but there was no consensus on what the optimum size a pool should be. If investment returns were not met from the pooled investments, then it was down to employers within the fund to make up the difference. If the investment returns fell, then the contributions would need to be increased. This

was a potential issue with mandatory pooling as the Council would have to come up with a solution if investment returns were short.
- If the other employers in the Fund experienced serious financial difficulty and ceased, then their liabilities fall on the other employers Fund of which the Council is by far the largest. If there is a shortfall to the Fund then it could mean increased contributions from employers.
- The way the questions are phrased in the consultation document made it difficult for officers to provide their opinion clearly.

The Committee asked the Acting Head of Pensions and Treasury to decide whether or not to reply to the Consultation on their behalf and to express their concerns with the proposals being too prescriptive regarding pooling. The response to the Consultation would have to be issued by the 2nd October.

Resolved:

1.1 To note the contents of the report.
1.2 To ask the Acting Head of Pensions and Treasury to look at the question's in the consultation and to decide whether it was in the Councils best interest to issue a response.

95/23 Scheme Advisory Board and The Pensions Regulator Updates

The Acting Head of Pensions and Treasury introduced the item and explained that the SAB mentioned that the average funding level had risen from 98% to 107% over the course of the year which demonstrated that all LGPS funds have moved to a better funded position.

The Acting Head of Pensions and Treasury informed the Committee that funds used different discount rates and assumptions, so it was difficult to directly compare funds. Hymans produced a report on comparison of funds and the Council was deemed to be 107% funded in on a more like-for-like comparison with other LGPS's however the Council's actual reported position was 97% funded.

Resolved:

1.1 To note the contents of the report.

96/23 Investment Strategy Statement Review

The Acting Head of Pensions and Treasury introduced the item and explained that the investment strategy statement was part of the LGPS Investment Regulations 2016. The regulations dictates that a fund, after taking advice must provide an Investment Strategy Statement which must be reviewed at least every three years.

The Acting Head of Pensions and Treasury stated that the Fund's last Investment Strategy Statement had been updated in 2021.

Robbie Sinnott from Mercers explained that the Investment Strategy Statement had been updated from the strategy which had been agreed last year. In the new Investment Strategy Statement the strategic asset allocation and the ranges had changed, there was also mention of multi asset credit which had also been agreed.

Robbie Sinnott stated that the new Investment Strategy Statement provided more clarity on the tobacco exclusion, there was also an explanation that there were areas where it was not possible to invest consistently with that policy.

Robbie Sinnott informed the Committee that the Investment Strategy Statement mentioned that climate change presented a financial risk to the fund. The investment strategy statement also made reference to Myners principles following a recommendation from Aon's governance review.

Resolved:

1.1 To review and agree the draft Investment Strategy Statement attached as Appendix A.

97/23 Responsible Investment Policy

Robbie Sinnott introduced the item and explained that this was a first draft of the policy, and the expectation was that this would be an ongoing piece of work that would come back to future Committee meetings in order to strengthen the policy over time.

Robbie Sinnott stated that a Responsible Investment policy was beneficial because the Investment Strategy Statement covered several areas and so having a responsible investment policy provided a document which went into a lot more detail regarding responsible investment.

In response to questions from members officers informed the Committee that:

- It would be beneficial to inform members about the responsible investment policy via a newsletter.

Resolved:

1.1 To review and agree the draft Responsible Investment Policy attached as Appendix A.

98/23 **Officers' Investment Progress Report to 30 June 2023**

The Acting Head of Pensions and Treasury introduced the item and explained that the investment increased by £27.5 million over the quarter back up to over £1.7 billion. The main contributors to the increase over the quarter was the rise in the LGIM global equity fund, bonds had been flat over the quarter and the sterling had strengthened during this period which had a slight negative impact on the private equity valuations as the funds private equities were priced in foreign currencies. Property investments increased over the quarter however the outlook remained challenging.

Resolved:

1.1 To note the performance of the Fund for the quarter ended 30 June 2023.

99/23 **Exclusion of the Press and Public**

RESOLVED that members of the Press and Public be excluded from the remainder of the meeting under Section 100A(4) of the Local Government Act 1972 on the grounds that: (i) it involved the likely disclosure of exempt information as defined in Paragraph 3 (Information relating to the financial or business affairs of any particular person (including the authority holding that information)) of Part 1 of Schedule 12A of the Act: and (ii) that the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

100/23 **Advisors' investment Progress Report and Market Update Report 30 June 2023**

RESOLVED that members of the Press and Public be excluded from the remainder of the meeting under Section 100A(4) of the Local Government Act 1972 on the grounds that: (i) it involved the likely disclosure of exempt information as defined in Paragraph 3 (Information relating to the financial or business affairs of any particular person (including the authority holding that information)) of Part 1 of Schedule 12A of the Act: and (ii) that the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

The meeting ended at 12.00 pm

Signed: ....

Date: ....