Pension Committee

Meeting held on Tuesday, 11 June 2024 at 10.00 am in Council Chamber, Town Hall, Katharine Street, Croydon CR0 1NX

MINUTES

Present: Councillor Callton Young OBE (Chair);

Councillor Patricia Hay-Justice (Vice-Chair) (online);

Councillors Simon Brew, Clive Fraser, Yvette Hopley, Karen Jewitt (online), Endri Llabuti and Alasdair Stewart

Co-opted Members: Ms Gilli Driver, Mr Peter Howard and Charles Quaye

Also Present: Charles Quaye, 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), Robbie Sinnott (Mercer), Daniel Turner (Mercer); Dean Bowden (London CIV); Silvia Knott-Martin (London CIV)

PART A

132/24 Minutes of the Previous Meeting

The minutes of the meeting held on Tuesday, 19 March 2024 were agreed as an accurate record.

133/24 Disclosure of Interests

There were none.

134/24 Urgent Business (if any)

There were no items of urgent business.

The Chair informed the Committee that there would be a change in the running order of the meeting and the London CIV item would be heard at the end of the Part A section of the meeting.

135/24 Medium Term Business Plan 2024-27

The Head of Pensions and Treasury introduced the item and explained that the business plan 2024-27 was taken to the April pension board meeting for comment and they agreed for the business plan to be presented to the Committee.

The Head of Pensions and Treasury informed the committee that the business plan contained a review of what the Pensions team had achieved over the past year, the introduction of the conflict-of-interest policy, responsible investment policy and the cyber security strategy were the highlights of the previous year. The Head of Pensions and Treasury explained that the key items which needed to be covered during the current municipal year were the transfer of assets to the London CIV, more training for Members of the committee and board, cyber security, bringing the accounts and annual reports up to date, Mc cloud remedy, pensions dashboard, compliance with the Pension Regulator Code and resourcing for the department at the council.

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

- Officers were working with governance advisors at Aon on the mapping document etc.
- The PSAA handle the contract arrangement for external audit. The contracts across local government went up by 50% in the last year. The amount of audit given the recent financial history of Croydon required auditors to go back to accounts across a longer period.
- The increase in fees were not to do with the level of work and had more to do with the re-tendering process. Officers thought that the fees agreed under the previous tender may have been too low as auditors may have been focused on winning the contracts.
- Investment management services we’re billed separately and as the assets grew the management expenses increased as well. The assets outside of the fund were the fees presented in the report.
- This was part of the reason why officers were trying to transfer more assets to the London CIV as they were able to negotiate better fee discounts.
- In terms of investment fees, a comparison was done with other councils, the council fared quite well. The council was at the bottom end of the London CIV in terms of service costs.
- There was an increase in fees due to covid as the work had to be done remotely. However, the recent increase was due to the re-tendering process.
- There was an additional risk factor built into the calculation on costs.
- The fees were forecast increases; a lot of the income was re-invested. There was the ability to take income if the Fund required more cash. The council was not currently drawing down on the income from a range of assets such as bond and property investments.
- Private credit was a cash generative investment.

- The Legal and General investment was an index tracking fund and although it was managed outside of the CIV, it was designated as being pooled. It was the largest part of the fund's equity investment portfolio.
- The Head of Pensions & Treasury stated that he was happy to bring back the visits to investment managers.

Peter Howard commended officers on the increase in the value of the Pension Fund over the past year.

Councillor Hopley congratulated officers and believed that a lot of ground work had been completed with the policies and processes that had been implemented.

Councillor Brew congratulated the entire pension team on their hard work and for the performance of the Fund over the past year. Councillor Brew also noted that continuity would be important moving forward as Members had been used to working together and already had an understanding of the pensions service.

Councillor Fraser thanked all the officers who had worked on the business plan and believed that the Fund was in a better place financially and the Fund's governance had also improved. Councillor Fraser acknowledged that the work done by the Committee was just the tip of the iceberg and there was a vast amount of work carried out by officers behind the scenes.

Councillor Hay-Justice asked for the investigation into the risk factors to the pension fund were documented for future reference.

Resolved:

1.1 To comment on and agree to the recommended Medium Term Business Plan 2024/27.

136/24 Pension Administration Update

The Pension Manager introduced the item and explained that the report covered the team's performance from February to April 2024 and the team had continued to perform well across most areas, particularly life events. The Pension Manager stated that they had seen an improvement on their leaver KPI's, officers had begun to see the benefit of the processes that thy had introduced at the beginning of the year. The Pension Manager explained that the team had seen an improvement in their bulk calculation processes, due to a software update they were able to processes well over 500 cases. Officers were working on a solution with their software providers to be able to include this data in their KPI reporting.

The Pension Manager informed the Committee that they were currently busy with the end of year processes, officers had received a good response from employers, there were just two main payroll providers left to update and one payroll provider who was yet to provide the team with information. Officers hoped to receive the necessary information so that they could achieve their annual benefits statements in august.

The Pension Manager explained that in April the team had updated all of their pensioner, deferred and pensioners cases with a pension increase of 6.7% this year. Officers experienced some issues with the software this year on some of the pensioner cases, however, they were able to identify the issues before the payroll run and made the necessary manual adjustments.

The Pension Manager stated that the team had began their project to upgrade the Member self service system, they were at the technical stage and had hoped to go to the testing stage in the autumn.

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

- Last year officers had purchased the Insights reporting tool for their software provider, this had helped as they were able to run one report and get much more detailed analysis. Officers were confident that everyone was paid the correct amounts following the manual adjustments. If there were any errors with their data then they would have been old records which needed adjusting, but the software provider was confident that the errors were simply isolated cases.
- In terms of contribution returns, the previous issue with an employer that was discussed at the Pension Committee meeting in December 2023 had been resolved. The current payroll provider issue was unusual as they had submitted the information for other schools they manage, however there was one academy trust that officers had not received information for.
- Officers would need to review some of their workflow processes to capture the new KPI's. There had been discussions with other Councils and the software provider to see whether something could be done universally as they would all need to record the same KPI's. Officers were unsure whether they could access data for phone records, they had discussions with members of the Council's IT team to gain access to phone data.
- Almost over a third of the outstanding cases related to auto aggregation and interfunds, many of these were dependent on leaver calculations to be carried out. The team's aim was to clear as many leaver cases which would enable them to focus on the aggregation cases. Their drive to complete their leavers would help work through the backlog.
- Some cases were quite old and there were legitimate reasons for why they were still open.
- Officers were keen to investigate how AI could be of assistance to manage their workload.

Resolved:

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

137/24 Breaches of the Law Report

The Head of Pensions and Treasury introduced the item and explained that there had been no new breaches that had been logged.

The Corporate Director for Resources explained that the Audit & Governance Committee received the accounts in March, the external auditor had submitted a report stating that they were happy with the accounts however there were still some formalities to be completed before they could offer their formal opinion which would enable the accounts to be officially signed off.

The Corporate Director for Resources informed the Committee that the audit industry had changed in recent years and the requirements of auditors had become very stringent which had caused the audit to be held up by Grant Thorntons processes.

The Corporate Director for Resources stated that the certificate for the 2019-20 accounts would be issued once the outcome of the Kroll repot had been released.

The Corporate Director for Resources explained that due to the calling of the general election the regulations required had not been laid regarding the audit backstop and the backstop date of the 30 September was now in the balance as officers were unsure whether it would still apply. Officers believed that as the regulations had not been implemented, the 30 September deadline was no longer feasible.

The Corporate Director for Resources informed the Committee that the 2021 accounts were with the auditors and they had conducted technical checks on the accounts. The Corporate Director for Resources stated that there was a new Interim Audit Manager at Grant Thornton and a permanent Audit Manager was due to the start shortly after. Officers had asked for an extension for the backstop, the consultation response included a request for an exemption as Croydon needed to have fully audited accounts without relying on the backstop, however, there had been no formal response to the request for an exemption.

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

- Officers would need to write to the regulator again to provide them with an update on the Council's position.
- There was an indeterminate amount of time for the receipt of the certificate, and it was out of the Council's hands. The auditor's opinion was more important than the certificate and once they had signed off the accounts the accounts could be published.

- The discretions policy had to go through several departments before it could be agreed.

Councillor Stewart asked whether the Chief People Officer could be invited to attend the next meeting of the Pension Committee, the other Members of the Committee agreed.

Resolved:

1.1 To review and note the contents of the Pension Fund Breaches of the Law Log.

138/24 Risk Register

The Head of Pensions and Treasury introduced the item and explained that officers had made a few improvements which were future actions on the register.

The Head of Pensions and Treasury stated that regarding the risk relating to the insolvency of scheme employers, officers had asked fund actuaries to assist the covenants of the admitted bodies and look at the funding position of those employers and there were no concerns. The risk was that when an employer ceased to become part of the fund there was a deficit that the fund could not recover from.

The Head of Pensions and Treasury explained that for the risk in relation to assets and liabilities, officers had received quarterly updates from the actuary. This would help to alert the Committee to any early warnings of any funding issues. Officers had improved their monitoring of contributions, and a mapping exercise was underway as part of the implementation of the cyber security strategy.

The Head of Pensions and Treasury confirmed that he was no longer acting up and had been formally appointed as the Head of Pensions and Treasury.

In response to questions from Members officers informed the Committee:

- There was a system from the Council’s risk register and the Head of Pensions and Treasury had spoken to the Head of Fraud & Risk about changing how the risks were presented.

Resolved:

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

139/24 Training Update

The Head of Pensions and Treasury introduced the item and explained that it was important for Members to complete the online Hymans training.

Resolved:

1.1 To review the training log to ensure it is an accurate record of training undertaken
1.2 To advise Officers to update the log for any training not recorded.

140/24 Published Fund Documents

The Head of Pensions and Treasury introduced the item and explained that as a result of the governance review exercise, Members needed to be aware of documents which need to be published on the Council's website. The Acting Head of Pensions and Treasury stated that one of the main focuses that for the current year was to ensure that the team were up to date in publishing their annual report and accounts even if they were unaudited.

Resolved:

1.1 To note the contents of schedule A.

141/24 Scheme Advisory Board and Pensions Regulator updates

The Head of Pensions and Treasury introduced the item and explained that the government completed the cost cap review, the LGPS did not need to change the benefit structure of the scheme as it was at an affordable level.

The Head of Pensions and Treasury informed the Committee that guidance had been issued for annual reporting, officers would have to report on more KPI's as part of administration and there was also reporting on the number of assets the fund had in the UK, how many assets were classed as levelling up assets etc. Officers had looked at the guidance and were confident that they could deliver on the requirements.

In response to questions from Members officers informed the Committee:

- It would not be difficult to track assets in the UK.
- Officers would be able to meet most of the reporting requirements.
- Regarding transferring assets into pools, officers had focused on transferring listed assets, and the government wanted this completed by 31 March 2025.

Resolved:

1.1 To agree to note the contents of the report.

142/24 Quarterly Investment Monitoring Report

The Head of Pensions and Treasury introduced the item and explained that the fund returned 4.8% over the previous quarter and assets now stood at £1.86 billion. The actuary had provided officers with a tool which estimated that the scheme was 126% funded as of the 31 March.
The Head of Pensions and Treasury informed the Committee that the fixed income allocation at the end of March was well below the target, and at the previous meeting they had agreed to transfer £100 million worth of assets to the multi asset credit funds which was run by the London CIV. This had been executed at the end of April and brought the Fund allocation to fixed income to around 20%.

The Head of Pensions and Treasury stated that the valuation of the Temporis investment had come down significantly from the previous quarter.

The Head of Pensions and Treasury explained that most private equity and infrastructure funds reported their annual accounts at the end of each calendar year and most assets would be revalued.

The Head of Pensions and Treasury stated that valuations wind assets had decreased significantly because discount rates had increased due to power prices coming down and lower expected inflation.

In response to questions from Members officers informed the Committee:

- The FTSE for good fund was a legacy fund, there was a lot of withholding tax that had been reclaimed and eventually the fund would reach a position where it could be closed.
- An asset allocation strategy was set in September 2023, the fund was not balanced within the strategy, but officers were working towards making it balanced.
- Officers were happy with the current diversification of the portfolio.

Resolved:

1.1 To note the contents of the report.
1.2 To agree that Officers should continue to rebalance the Fund's investments over the next year in line with the target asset allocation set out in the Investment Strategy Statement as agreed by Pension Committee on 19th September 2023.

143/24 London CIV Update

The Head of Pensions and Treasury introduced the item and explained that Dean Bowden became the CEO of the London CIV in December 2022.

Dean Bowden, CEO of the London CIV explained that he joined in 2022 and this was his first appearance at the Committee. The London CIV was an extension of the funds they represent and sought to deliver value and achieve outcomes. Dean Bowden explained that the business was in a lull regarding its capital position, this had been addressed and they had regulatory capital. Dean Bowden explained that he had looked at the business as a whole and found that there were many inefficiencies, the London CIV had implemented a recruitment freeze as they wanted to ensure they got the most efficiency out of the structures that were in place, removed duplication and reduced the discretionary funding charge (DFC); the DFC would be reduced again next year with a view to eventually removing it entirely in the next two or three years. The London CIV had launched UK housing and the buy and maintain credit fund, Dean Bowden believed that the buy and maintain credit was going to be the most successful launch they've had on an assets gathering basis purely because of the number of boroughs and clients that had asked for it.

Dean Bowden stated that last year was a foundational year, they had received clarity from government regarding the consultation and the overall funding model would be simplified, they looked at product offerings.

Dean Bowden explained that TNFD would come to the fore which was reporting service which would be offered for free once it had been rolled out.

Dean Bowden informed the Committee that he had spent time in workshops with officers and Ministers and there was a desire to push forward with the pooling and to use the capabilities of the community to invest in infrastructure assets. This would ensure that less intervention was required moving forward.

Dean Bowden stated that the Government had set a deadline to transfer liquid assets to pools by March 2025, but the London CIV had responded stating that this was ambitious.

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

- There were investment advisors who would have a view on what asset classes were required. They would also have their own opinion on which asset classes were worth investing in and they would work collaboratively to ensure that the best practices were implemented. It was important to work as a community.
- The lift and shift would be in liquid assets to start with. For illiquid assets the transition costs of moving between holders would need consideration. For property assets, they would use a model portfolio strategy rather than a fund-based strategy as they would be able to shift the oversight of the manager to the London CIV without changing the ownership of the underlying asset. The model was not to have the fund managers who worked in the field of the business, but they would be able to review the managers who knew the business area.
- The London CIV would negotiate on behalf of a collective rather than a singular which is what would drive down the cost of an asset manager.
- There were 44 employees at London CIV across 5 functional teams, 15 members of staff were on the investment team and monitored the investments on the funds' behalf full time. This was a more structured

way to monitor investments. As the London CIV was catering for their shareholders as well as their clients they had to go above and beyond to ensure that the asset managers were well scrutinised.
- One of the values that the London CIV could drive for the community was Environmental, social, and governance (ESG) investments. The London CIV had a lot of engagement with partner funds on that topic, there was a Sustainability Working Group to which anyone within part of the funds was invited to attend. This was a quarterly session where they discussed what was important from an ESG perspective to partner funds, what values and issues were pressing as well as discussions about best practice.

Resolved:

1.1 To note the contents of this report and the attached briefing provided and presented by the London Collective Investment Vehicle.

144/24 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.

145/24 Part B - Quarterly Investment Monitoring Report

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.

146/24 Part B - Corporate Bond Transfer to London CIV

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 12.58 pm

Signed: ....

Date: ....