

Pension Committee

Meeting held on Tuesday, 12 December 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, Yvette Hopley, Karen Jewitt, Endri Llabuti and Aladair Stewart

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

Also Present: Councillor Stewart Collins (online), Matthew Hallett (Acting Head of Pensions and Treasury), Gillian Phillip (Pensions Manager), Alison Fisher (Governance and Compliance Manager, Mike Ellsmore (Chair of Pension Board), Robbie Sinnott (Mercer), Jane West (Corporate Director of Resources & S151 Officer), Ian Talbot; Mary Lambe (AON); Silvia Knott-Martin (Client Relations Manager for Croydon at the London CIV); Yiannis Vairamis (Senior Equity Portfolio Manager at the London CIV); Jeremy Richardson (Senior Portfolio Manager, Global Consumer Products, RBC Bluebay Global Equity), Tom Chevalier (Relationship Manager, RBC Bluebay Global Equity)

PART A

101/23 Minutes of the Previous Meeting

The minutes of the meeting held on Tuesday, 20 June 2023 and Tuesday, 19 September 2023 as accurate records subject to the following amendments:

- The spelling of Councillor Stewart's name in the minutes for the meeting on the 20 June 2023 to be corrected.
- In the minutes for the meeting on the 19 September, Co-opted member Ms Gili Driver was said to have given her apologies when she in fact attended online.

102/23 Disclosure of Interests

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

Mike Ellsmore suggested a blanket declaration for item five for any individuals who had been appointed by the employer.

103/23 Urgent Business (if any)

There were no items of urgent business.

104/23 Review of the Admission Policy, Academies Policy and Funding Strategy Statement

The Acting Head of Pensions and Treasury introduced the item and explained that it was important for the Fund to have an admissions policy to mitigate any risk that new employers may bring to the Fund. The admission policy was drawn up in December 2021 and officers had proposed two main changes to the policy as they believed that it was better to have a passthrough arrangement with employers that were contracted by the Council.

The Acting Head of Pensions and Treasury informed the Committee that the policy that had been previously adopted saw employers contributions assessed as if they were a standalone employer. This was problematic as when the Council would tender for contracts, the employer would not know the pension costs they would have to pay.

The Acting Head of Pensions and Treasury stated that as the Fund was generally made up of small employers their covenants would be quite weak, so the Fund would usually require new employers to put bonds in place to protect the other employers within the Fund. The Acting Head of Pensions and Treasury stated that this would be quite difficult for small employers to do as it would be quite expensive, this would also require a lot of work for the Fund as legal agreements would need to be arranged.

The Acting Head of Pensions and Treasury explained that under a passthrough arrangement the risk would stay with the Council and not the Fund, and when a contract ended rather than a cessation value being calculated, the assets and liabilities would transfer back to the Council's notional pot in the Fund. There was no cessation amount due to or from the employer. which would enable the Council to award contracts a lot easier.

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

- Academies were judged on an individual basis, so the risk was not with the Council. The contracts let out by the Council were with small employers, so the risk to the Fund was small.
- The Fund was protecting itself by allowing the Council to take on some of the risk.
- The employer would pay the same contribution rate as the Council, so they would be effectively paying the future service rate and a portion of the past service rate.
- If the employer was analysed on their own, then their covenants would be weaker and would join the Fund on a fully funded basis which would mean that they would not be paying any past service deficit rate.
- The Council could agree for an employer to pay a fixed rate, but the Council would have to make up the difference.

- Passthrough was a way of sharing the risk for the pension's allocation. The contractor could price in the pensions risk into their fee which would cause the contracts to become more expensive.
- If a contractor was not going through the passthrough arrangement, then officers would insist that a bond was put in place which would be expensive for the employer.
- Most Councils had adopted the passthrough arrangement.
- If the Council were not prepared to take on the risks which came with the passthrough agreement, then officers would then insist that the admission agreement had a bond put in place.
- Croydon Equipment Services (CES) was currently under the Council's umbrella however they would soon be set up as a company in their own right under the passthrough agreement.
- If CES were to be assessed as an individual employer their liability would be £3 million.
- CES had 80-90 fund members, but most companies had around 4/5 fund members.
- Through passthrough the Fund was getting the covenant of the Council which was extremely strong.
- Passthrough was a good tool as there weren't many large employers so there was a minimal risk to the fund.
- The Council accounted for around 80% of the fund, 5% of the fund was made up by Croydon College and the vast majority of the others were academies and they were covered by the Department of Education guarantee.
- Large employers included Croydon college and academies. The failure of smaller companies would not be much risk to the fund and the liability would fall on the Council.
- Passthrough was the safest route for the Fund and the Croydon council taxpayer could benefit from the policy as they could be avoiding an additional cost being priced into a contract with an employer due to the uncertainty around pension costs.
- The policy would not go to another committee as it fell under procurement and the pension arrangements were priced within a contract. The Council did not have to agree passthrough, and if the Council insisted that a contract went through an alternate route then the Fund would then have to agree a bond with the contractor which would then cause the contractor to price their work differently.

The Acting Head of Pensions and Treasury stated that Officers were recommending that the passthrough arrangement would apply to admission bodies where contracts had been let by academies as the Department for Education had now extended their guarantee to cover these as long as the letting conditions they stipulate had been met.

Resolved:

- 1.1 To agree the revisions to the Admissions Policy, Academies Policy and the Funding Strategy Statement attached as appendices A, B and C.

105/23 Croydon Pensions Administration Team Key Performance Indicators for the Period from August 2023 to October 2023

The Pension Manager introduced the item and explained that during the period of August 2023 and October 2023, the Pensions Administration team had managed to publish the annual benefits statements on the 31 August 2023. The Pension Manager informed the Committee that on the 6 October 2023 the Pensions Administration team had published all of their annual allowance pension saving statements for anyone who exceeded the annual allowance for 2022/23. The Pensions Manager stated that as the Pensions Administration team had reached the end of their statutory requirements, the team had reverted back to business as usual and the technical team had been able to turn their attention to developments on the system and working with payroll providers to implement I Connect.

The Pension Manager concluded by informing the Committee that the Pensions Administration team would continue to do blitz days to catch up with outstanding leavers.

Councillor Stewart congratulated the Pensions Administration team on their improved performance.

In response to questions from members, Officers informed the Committee that:

- The Council had started a podcast and pensions was an agenda topic. Officers noted that they saw an increase in questions around member self-service.
- The volume of staff turnover in schools was difficult to keep up with and it was compounded by auto aggregation, regulations and inter-funds as the team could not process the leavers until this was resolved.
- The Pensions Administration team spent two days a month to blitz the leavers and they were looking to increase this in the new year.

Resolved:

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

106/23 Review of Risk Register

The Acting Head of Pensions and Treasury introduced the item and explained that there were 16 risks on the register. There were several changes on the register including the employer risk to the fund, however the introduction of the revised admissions policy would reduce the risk of failure for employers in the fund.

The Acting Head of Pensions and Treasury informed the Committee that the funding level of individual employers had improved significantly, and officers were working with the actuary to assess the covenant of employers.

The actuary had provided a tool which would enable officers to monitor the funding level on a more regular basis. The Acting Head of Pensions and Treasury stated that he would bring a report to the next Pension Committee meeting to assess the funding level.

The Acting Head of Pensions and Treasury stated that the conflict-of-interest policy had been agreed at the previous meeting and so the risk rating had been reduced on the register and as the responsible investment policy had been introduced at the last meeting the risk would also be reduced in future.

In response to questions from Members, Officers informed the Committee that:

- There was a separate risk attributed to the Ukraine and Russia conflict on the register, but it had been replaced with a general risk for global crises.
- Officers had extended the risk of scheduled or admitted bodies not paying over contributions for a further 6 months. Officers hoped to have a paper to present to members at the next Pension Committee meeting.
- The deadline for a response to the Mansion House speech was on the 31 October but officers decided not to submit a response.
- The 5% investment into levelling up assets will be brought into legislation and funds would have to either comply or provide a valid reason as to why they were not compliant.
- There was a paper which defined what a levelling up asset was but the legislation on levelling up assets would be subject to change over the coming years.

Resolved:

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

107/23 Review of Breaches of the Law Log

The Acting Head of Pensions and Treasury introduced the item and explained that there were three new breaches, the first breach was the failure to submit 100% of the annual benefits statements by the end of August. The second breach was a failure to pay refunds within the allotted timescales and the third breach was the failure to publish the 2022/23 accounts.

The Corporate Director of Resources & S151 Officer informed the Committee that the 2019/20 accounts and the audit report were sent to the most recent Audit and Governance Committee meeting. The Corporate Director of Resources & S151 Officer explained that the next area of focus would be the 2020/21 accounts, however there was some confusion over what the

guidance from the government would be regarding the audit of older accounts and whether they would put a fire break in place which would see auditors instructed to only focus on new accounts. The Corporate Director of Resources & S151 Officer concluded stating that Officers were still trying to get all of their outstanding accounts through the audit process before the firebreak.

Resolved:

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

108/23 Committee Training Update

The Acting Head of Pensions and Treasury introduced the item and asked Members to check that all the training sessions they had attended had been recorded accurately. The Acting Head of Pensions and Treasury reminded Members that the Hymans portal was available, and it was important for Members to try and engage with the training on the portal.

Councillor Brew stated that he had attended various events by various fund managers and had reported his attendance to Democratic Services and he had yet to see them recorded fully. In response, the Acting Head of Pensions and Treasury asked if he could inform the Pension Governance Team Manager of the events that he had attended so that his attendance could be recorded.

Councillor Brew stated that he did not feel as though he needed to continuously attend training sessions which covered topics in which he already possessed adequate background experience in.

The Acting Head of Pensions and Treasury explained that following the consultation, it was important to ensure that Members were adequately trained and that there was a training policy in place.

The Corporate Director of Resources & S151 Officer stated that it may be useful for Members to discuss with officers what a CPD plan entailed for Members of the Pension Committee. The CPD plan would be personalised to each individual and would map out their development over a period of time.

Mary Lambe stated that AON had spoken with officers about supporting the Pension Committee and Board on their development journey. AON were currently mapping out training requirements for Members on hot topics and looking at the assessment undertaken last year in regard to where the Members of the Committee sat in comparison to their peers on other Committees.

Peter Howard stated that he was unsure on where to report the training session that he had attended. The Acting Head of Pensions and Treasury

instructed Peter Howard to inform the Pension Governance Team Manager of the events that he had attended so that his attendance could be recorded.

Councillor Fraser asked for officers to re-circulate the link to the Hymans training portal.

Resolved:

1.1 The Committee is asked to note the contents of the Pension Committee Training Log.

109/23 Local Government Pension Scheme Advisory Board / The Pensions Regulator Update

The Acting Head of Pensions and Treasury introduced the item and advised Members to read the response to the consultation and the next steps that had been published by the Department for Levelling Up, Housing and Communities (DLUHC).

Robbie Sinnott explained that there was no immediate focus on consolidating pools, however over the longer term the LGPS was forecast to reach £900 billion.

Robbie Sinnott informed the Committee that the desire to have 10% in private equity, the 5% invested in levelling up assets and the transfer of listed assets to the pool by the 31 March 2025 were part of the comply or explain regime.

Resolved:

1.1 To note the contents of this report.

110/23 Part A Progress Report for Quarter Ended 30 September 2023

The Acting Head of Pensions and Treasury introduced the item and explained that at the beginning of the quarter, the assets were valued at just over £1.7 billion, and the assets were valued at just under £1.7 billion at the end of the quarter. The decrease in value of the portfolio was largely due to the fund having a negative cash flow.

Robbie Sinnott explained that Q3 had been driven by the information about expectations in the market and how this affected central banks actions.

Robbie Sinnott stated that inflation expectations had been driving equity and bond markets during the quarter.

Robbie Sinnott informed the Committee that during Q3 the US central bank had continued to state that they were not looking to cut rates, this caused bond yields to rise and saw fixed income and equity markets fall. During the

quarter, the sterling weakened versus the dollar which helped unhedged assets and led to some positive returns.

Robbie Sinnott explained that there had been really strong equity markets since the 30 September and November was the best return for a 60-40 equity bond portfolio for multiple decades.

Robbie Sinnott informed Members that the US equity market was up by around 10% in November, however not many companies in the S&P 500 had seen positive returns for the year. There were 7 tech stocks which made up for 25-30% of the market and were largely responsible for the growth in the US stock market throughout the year, these conditions meant that it had been a difficult market for active managers to outperform.

Robbie Sinnott stated that they would expect to see a de-concentration over time, which would present a risk to passive markets.

Robbie Sinnott explained that the increase in interest rates proved difficult for fund managers who had a focus on sustainability such as RBC and a period of more stable rates would be a more appropriate time to judge their performance.

In response to questions from Members, Officers informed the Committee that:

- The US had run a tighter monetary policy over the past 12-18 months and these tighter policies would lower inflation.
- The Ukraine war had been inflationary, food prices had increased as Ukraine was a large producer of wheat and other areas which led to the increase in food prices.
- Central banks were trying to get down to 2% inflation which would prove to be difficult. Central banks may have to accept slightly higher inflation to avoid a potential a recession.
- A recession, which was by definition two consecutive quarters of negative growth, would not necessarily be as bad if it was followed by a sharp rebound; a period of stagnant growth and 3% inflation would be more of a concern than a recession.

Resolved:

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

111/23 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.

112/23 LCIV Sustainable Equity Exclusion Fund

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.

113/23 Cyber Security Strategy

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.

114/23 Part B - Progress Report for Quarter Ended 30 September 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 1.05 pm

Signed:

Date:

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