

## Minutes



To: All Members of the Pensions Board LGPS, Chief Executive, Chief Officers, All officers named for 'actions'

From: Legal, Democratic & Statutory Services  
Ask for: Theresa Baker  
Ext: 26545

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### **PENSIONS BOARD LGPS 6 DECEMBER 2016**

#### **ATTENDANCE**

#### **MEMBERS OF THE BOARD**

**Employer Representatives:** D Ashley (Vice Chairman), D Graham, P Neville

**Member Representatives:** D Devereux, J Digby (Chairman), K Harding, C Roberts

#### **STANDING SUBSTITUTE MEMBERS**

**Employer Representatives:** J Anderton, M Green, J Hurley,

**Member Representatives:**

Upon consideration of the agenda for the Pensions Board LGPS meeting on 6 December 2016 as circulated, copy annexed, conclusions were reached and are recorded below:

#### **PART I ('OPEN') BUSINESS**

#### **ACTION**

##### **CHAIRMAN'S ANNOUNCEMENTS**

- i. Apologies were received from G Clay and T Hone;
- ii. The chairman apologised for the delayed arrival of the actuaries assigned to deliver the training session;
- iii. Noting that the training session was necessary for the Board's understanding of item 5 on the PART I agenda the chairman, with the Board's consent, directed that PART II of the meeting be undertaken first, then PART I of the agenda, excepting item 5, followed by the training and finally item 5.

*Note: No conflicts of interest were declared by any member of the Cabinet Panel in relation to the matters on which conclusions were reached at this meeting.*

#### **1. MINUTES PART 1**

Clarification was made that:

- a. In relation to Chairman's announcement (vi) review of the board was deferred to 14 March 2017, it was noted that there

- was no meeting in February 2017;
- b. In relation to minute 7.4 the Chairman would check how many Board Members had completed the online training before finalising the review of the Board's activities being reported to the March 2017 meeting;
- c. In relation to minute 10.3, a member emphasised that the needs of pensioners should be put ahead of the government requirement for investment in infrastructure funds. Officers clarified they were involved in a working group with the Pensions Committee to review investment strategy, and whilst the Access Pool had confirmed global (not just UK) infrastructure as a potential asset class each fund would determine their own allocation to this class. In response to government 's strong direction to invest in UK infrastructure officers highlighted that investments in infrastructure would be determined by each Fund's individual risk and return appetite. Officers were also involved in a country wide cross pool infrastructure group on the best way for LGPS funds to access this class via a national platform. A member referred officers to the One Public Estate programme in relation to range of investments planned.

The Minutes of the Pensions Board LGPS meeting held on 30 September 2016 were confirmed as a correct record following the above clarification and signed by the Chairman.

## **2. PENSION BOARD ANNUAL REPORT UPDATE**

[Officer Contact: Jolyon Adam, Finance Manager  
(Tel: 01992 555078)]

- 2.1 The Board considered a report which provided details of the requirement for Annual Reports from the Pension Board (LGPS) and the way in which it proposed the requirement was discharged. In relation to this two reports were detailed.
- 2.2 Officers reported that following a review of the guidance for the basis of a recurring Annual Report on the activity of the Pension Boards (LGPS), an outline annual report would be presented to the meeting of the Pension Board on 14 March 2017; it was noted that there was no meeting in February 2017. Its function was to update employers and scheme members in the fund on the year's activity in relation to membership for the previous year and any changes to the constitution of the board; key topics considered, decisions and recommendations made; the Forward Plan for the year ahead and the Board's Training Plan.
- 2.3 Officers highlighted that subsequent to the meeting on 14 March 2017, the Annual Report would be aligned with the Annual Report of Accounts for the Pension Fund and appointment of the chairman

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each September.

2.4 The Board heard that there would be an additional one-off report from the Chairman and officers on the wider operation of the Pension Board after its first year of operation. This would review the successes, challenges, required improvements and considerations for the Board's second year; to this end the chairman had attended meetings with the chairman of the Pension Boards across the LGPS fund to draw on their experiences. The chairman requested that members email her with any items for inclusion in the report.

Board  
Members

2.5 Officers offered to circulate a draft of the one-off report before presentation at the March 2017 meeting of the Board, and confirmed that both the one-off and annual reports would come to the Pension Board before going to the Pension Committee.

J. Adam

2.6 Members of the Board reflected on the process by which the Board had been established, its nature and its operational mechanisms during the first year of its existence. They requested that officers consider the following issues in their draft annual report:

P Towey

- The status of the Board as an independent body separate from the County Council's committee system;
- Clarification of the appointment procedure for Board members in future, both for replacements during the Board's 4-year term and at the end of the 4-year term, in particular who should be responsible for appointing Member Representatives;
- The possibility of holding Board meetings at other venues e.g. the premises of other employers.

Officers agreed to consider the issues mentioned and would take advice from the monitoring officer.

2.7 In response to further discussion, officers reminded members that control of the LGPS fund assets was delegated by the County Council to the Pensions Committee and that the Board's role was to act as 'critical friend'. In this respect it was tasked with giving assurance that the work of Pensions Committee and officers provided best service to the members of the fund and that assets were being managed appropriately i.e. by challenging and measuring performance by investment managers. It was highlighted that the Board was still new and that its role was evolving; its engagement was exemplified by the fact that the Board's comments on strategy reports were considered by the Pensions Committee and some had been adopted or recommendations adjusted.

The chairman observed that, unlike the Pensions Committee, the

Pension Board had access to the detailed information on the administration of the fund and had a critical role to play in this area in particular.

- 2.8 A member expressed concern over the low number of Board meetings in relation to the level of responsibility it held and suggested an additional annual informal meeting to examine strategy for the forthcoming year.
- 2.9 The Board were pleased to note that insurance officers had confirmed they were covered by the Council's indemnity insurance in respect of their responsibilities.

**Conclusion:**

- 2.10 The Pension Board noted the proposed content of the two reports and commented as above.

**3. PENSION FUND GOVERNANCE AND RISK MANAGEMENT REPORT**

Officer Contact: Jolyon Adam, Finance Manager  
(Tel: 01992 555078)]

- 3.1 The Board considered a quarterly report on the governance and risk management of the Pension Fund from July to September 2016 which covered Governance and Risk Management; Administering Authority Report; Specific Scheme Employer Matters; Pensions Committee.
- 3.2 Members noted that a summary version of the report with particular reference to the risk monitor had been presented to the Pensions Committee.
- 3.3 Officers referred the Board to: Appendix A to the report for the detail of activity and events during the quarter that impacted on the risk areas; Appendix B to the report for the monthly risk monitoring exercise on scheme employers where their covenant might have a detrimental impact on the pension fund.
- 3.4 In relation to Employer Risk Monitoring members expressed concern that the number of outstanding admission agreements over 6 months old had only reduced by 3, from 27 to 24, in spite of the appointment of external legal services to help clear the backlog. In at least one case, an employer was deducting pension contributions from employees but not passing these over to the LGPS due to the lack of an admission agreement. The Board requested that officers prepare, by the next meeting, a project plan / timescale against which to measure clearing of the backlog of agreements more than one year old, including work to

J Adam

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strengthen procurement requirements around pensions in the letting of contracts.

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| 3.5  | Late notification by employers of leavers from the scheme was discussed in relation to data quality controls and impact on processing capability and deferred benefits. The Board requested that officers investigate charging employers for the cost of processing information over 6 months old as an incentive to prompt notification.  | J. Adam                       |
| 3.6  | In discussion officers clarified that the amber risk category contained many difficult to manage legacy liabilities e.g. charities without a bond / guarantor, and that they were working on mutual agreements where some form of payment would be made into the fund. To enable the Board to better understand the direction of the risk associated with Scheme Employers in the Amber Risk Category officers agreed to provide greater detail in reports on the weighting within the amber range e.g. amber/green, amber/red.  | J Adam                        |
| 3.7  | Comment was passed that the pension implications for councils of setting up development companies needed to be considered.   |                               |
| 3.8  | During discussion around outsourcing contractors taking on staff and not complying with the pension scheme / submitting data, the board suggested: <ol style="list-style-type: none"><li>1. Recouping by the Fund as a whole of the legal costs / extra administration costs incurred;</li><li>2. Application of a time limit for fulfilment of all aspects of the admissions agreement on both the ceding employer and contractor taking on the staff;</li><li>3. Signing of the outsourcing contract only if the pension agreement had been signed;</li><li>4. A high level agreement from the County Council not to sign any contracts which lacked admission agreements;</li></ol> <p>The actuary advised the Board that employers who took members' contributions but failed to pay them into the Fund were acting illegally, and as such should be referred to The Pensions Regulator.</p> |                               |
| 3.9  | Officers agreed that they would take legal advice in relation to the suggestions above and then use it to deal with these situations and give direction to the bodies in the scheme. This legal advice would inform the establishment of strong policies and processes for the bodies in the fund and for use in future outsourcing negotiations.  | P Towey<br>J Adam             |
| 3.10 | Officers agreed to explain the current legal position and reinforce the message discussed above at the Employers Forum on 30 January 2017.   | P Towey<br>J Adam<br>O Mapley |

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- 3.11 On a positive note, the Board were informed that legislation now required new bodies joining the scheme to have in place a bond / guarantor / charter of assets, and that if the surety agreements were deemed unsatisfactory admission could be denied.
- 3.12 In respect of the Administering Authority Report members were referred to Appendix C for a summary of the performance indicators and performance against the Administering Authority, Scheme Employers and the contracted pension administration service provide by the LPFA and progress to mitigate any issues.
- 3.13 The Board noted that 5 new employers had been admitted to the scheme and that Gosling Sports Park had left the Fund. There were no actions arising from the September 2016 meeting which required a response from the Pensions Committee.

**Conclusion:**

- 3.14 The Board noted and commented on the report as above.

**4. LONDON PENSIONS FUND AUTHORITY (LPFA)  
LOCAL GOVERNMENT PENSION FUND ADMINISTRATION  
REPORT**

[Report of Mike Allen – Director of Pensions (LPFA)]

- 4.1 The Board received the quarter 2 update from the LPFA on the delivery of the pensions fund administration services in relation to statistics and key performance indicators; progress on projects and key activities and an update on regulatory changes including potential scheme changes.
- 4.2 Members noted that the 1,035 rise in the quarter in deferred members was due to the processing of year end returns for Scheme Employers where they had not notified the LPFA during the year of leavers.
- 4.3 In relation to the effect of delayed notification of leavers by employers, in part picked up by a thorough exercise to ensure year end data was processed ready for March 2017, members noted:
  - that this issue had also impacted on the processing of Deferred Benefits from January 2016 to September 2016 and resulted in an over 50% increase in volume on the same period in 2015, the measures in place to reduce the backlog by 287 cases per month for completion by 28 February 2017;
  - the data matching exercise underway with SERCO, who ran payments, to locate further missing information;

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- that additional deferreds, joiners and refunds had similarly been identified through year end processing.

In light of this the LPFA was engaged with Scheme Employers to address timely notification of membership change.

- 4.4 In relation to instances of late payment of contributions by employers, and in particular repeat cases, a member commented that this might be a back office issue and that, in addition to the penalty applied, a letter to senior level might highlight problems within the organisation and possible resolution of such issues.
- 4.5 M. Allen updated the Board that, since writing of the report, the following reconciliations had been completed subsequent to resolution of queries with HMRC:
- 1000 cases due to disagreement on the basis of their calculation;
  - 200 cases in respect of the amount arrived at;
  - 3000 cases of multiple records (i.e. those with several employers);
  - refunding of contributions of leavers who had been in the scheme for less than 2 year.

It was noted that there were 2003 cases of ‘no record of where and when employed’ and that some records could go back to 1975. The Board heard that work still had to begin on ‘actives’.

- 4.6 In response to a question M Allen clarified that the LPFA could not recommend sources of detailed financial advice for pensioners however they did alert them via information on benefit statements to the risk associated with transfer of benefits to pension liberation schemes.
- 4.7 In response to discussion of GMP reconciliation and overpayment of pensions officers clarified that, when an overpayment was identified, a buffering period in relation to reduction of the pension from its current to its revised level was not possible as the fund could not knowingly pay benefits to which the pensioner was not entitled.

**Conclusions:**

- 4.8 The Board noted contents of the report.

**5. FORMAL FUNDING VALUATION INITIAL RESULTS 2016**

[Officer Contact: Patrick Towey, Head of Specialist Accounting  
(Tel: 01992 555148)]

- 5.1 The Board received a report to advise it on the initial results of the

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formal valuation of the Hertfordshire Pension Fund at 31 March 2016 and to seek its recommendation of the approach for the review, consultation and final approval of the Funding Strategy Statement.

Members were advised that paragraph 2.1 of the report should read 'Funding level at 31 March 2016 was valued at 91%'.

5.2 The Board heard that the Hertfordshire Pension Fund was formally valued by the Fund's actuary Hymans Robertson every three years, and that at 31 March 2016 the overall funding level had increased to 91% with a reduction in the Fund deficit to £336m, although results for individual employers in the Fund would vary due to the different characteristics of their members. Members were referred to Appendix A to the report for the initial results of the Fund as a whole.

5.3 Members noted that in government comparison of Funds on a like for like basis the funding level for the Hertfordshire Fund as a whole fund was 107%, one of the better funds nationally.

5.4 The Board were referred to Appendix B for the draft Funding Strategy Statement which was a statutory requirement and explained how the Fund managed the setting of contribution rates for all the different employers in the fund to ensure affordability, transparency of processes, stability of employer's contributions and prudence in the funding basis.

5.5 Officers highlighted that the FSS had now been simplified for users with easier to understand sections, and better sign posting. Members were asked to email officers with any comments on the document. The Board noted that subsequent to their review and comment, the FSS it would be circulated to all scheme employers for an 8 week consultation period and then come back to the Pension Committee for final approval on 24 February 2017.

Board members

5.6 In response to a question officers clarified that the quarterly Navigator Reports and the reported funding level become less reliable the further one moved from the formal valuation date of 31 March 2016.

**Conclusion:**

5.7 The Pension Board noted:  
a. the initial results of the 2016 formal funding valuation.  
b. the process for the review of the Funding Strategy Statement, consultation with employer bodies and final agreement by the Pension Committee at its meeting on 24 February 2017.

**6. PENSION FUND ASSET POOLING – ACCESS UPDATE**

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[Officer Contact: Patrick Towey, Head of Specialist Accounting  
(Tel: 01992 555148)]

- 6.1 The Board received a summary of activity and progress by the ACCESS pool since submission to government of the proposals for pooling of assets in July 2016, and an update from the recent ACCESS Chairmen engagement meeting in October 2016.
- 6.2 Officers highlighted that constitutional approval of the Inter Authority Agreement was required by the end of the financial year, to ensure business continuity in view of the local elections and the potential loss of some members on various funds. The Board were reminded of the 2018 overall time frame for establishment of the ACCESS Pool.
- 6.3 During a verbal briefing on further developments since writing of the report, members heard that some of the chairmen of the ACCESS pool along with an officer had met the Minister for Local Government to discuss the pool's submission in terms of progress on delivery of the pool.
- 6.4 There were no comments from the Board.

**Conclusions:**

- 6.5 The Pension Board noted the contents of the report.

**7. DATES OF FUTURE MEETINGS**

- 7.1 14 March 2017 at 10am  
3 July 2017 at 10am
- 7.2 The Chairman moved to close the Part I agenda.

**8. OTHER PART I BUSINESS**

- 8.1 There was no other PART I business.

**EXCLUSION OF PRESS AND PUBLIC**

That under Section 100(A)(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item/s of business on the grounds that it/they involve/s the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of said Act and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

**PART II ('CLOSED') AGENDA**

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**1. MINUTES**

1.1 The Minute of this item of business is set out in the separate Part II Minutes.

**2 PENSION FUND – FUNDING AND INVESTMENT REPORT  
(Formerly PERFORMANCE REPORT) AS AT 30 SEPTEMBER  
2016**

2.1 The Minute of this item of business is set out in the separate Part II Minutes.

**KATHRYN PETTITT  
CHIEF LEGAL OFFICER**

**CHAIRMAN** \_\_\_\_\_

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