

## 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 14 MARCH 2017

#### ATTENDANCE

#### MEMBERS OF THE BOARD

**Employer Representatives:** D Ashley (Vice Chairman), G Clay, D Graham, P Neville  
**Member Representatives:** D Devereux, J Digby (Chairman), K Harding, C Roberts

#### STANDING SUBSTITUTE MEMBERS

**Employer Representatives:** J Anderton, J Hurley,  
**Member Representatives:**

Upon consideration of the agenda for the Pensions Board LGPS meeting on 14 March 2017 as circulated, copy annexed, conclusions were reached and are recorded below:

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

#### ACTION

*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

In relation to the minutes of 6 December 2016 point 7.4, the chairman confirmed that K Harding, D Ashley and P Neville had begun the online training and encouraged the Board to complete it.

The Minutes of the Pensions Board LGPS meeting held on 6 December 2016 were confirmed as a correct record and signed by the Chairman.

##### 2. PENSION FUND GOVERNANCE AND RISK MANAGEMENT REPORT

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

Board  
Members

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|-----|---|--------|
| 2.1 | The Board received the quarterly report on governance and risk management of the Pension Fund covering the period 1 October to 31 December 2016 which also encompassed the Administering Authority Report on Performance Indicators for the Administration Strategy; specific Scheme Employer matters; details of reports presented to the Pension Committee on 24 February 2017, including its response to feedback and comments from the Board.   |        |
| 2.2 | In relation to point 3.6 of the meeting of 6 December 2016 and Governance and Risk Management, Members were directed to Table 2: Analysis of Scheme Employers by Risk Category, where it was highlighted that Column 3: Risk Category / Risk Score reflected the level of amber risk (e.g. green-amber versus red-amber) and what was begin done to reduce the risks within the amber category.   |        |
| 2.3 | The Board heard that since the report had been published, the number of new scheme employers in the red risk category had decreased yet further to 22.  |        |
| 2.4 | Members drew attention to the net liability figures and number of the employers in the amber versus red risk category and suggested that it could be cost effective to chase those in the amber category.   |        |
| 2.5 | The Board welcomed the Outstanding Admission Agreement Action Plan (Appendix D to the report). Members heard that legal advice was also being sought from Squire Patton Boggs on penalties to incentivise scheme employers to seal their admission agreements within timeframe; these penalties would be presented to the Board for review and recommendation to the Pensions Committee.  | J Adam |
| 2.6 | During discussion of the amount and type of detail in the report, its format and the likelihood of obscuring the main financial risks, Members heard that although the risk associated with outstanding admission agreements was small, their longstanding cumulative effect needed to be considered and, due to the hidden risk to employers, were consequently identified by presentation as an appendix. Officers agreed to include in the action plan the financial amounts associated with the outstanding admission agreements. | J Adam |
| 2.7 | In response to further questions on the red risk category officers agreed to provide further granularity about factors, other than outstanding admission agreements, which caused the risk rating. Members were advised that, excluding those in the 'over a year old' category for time period since transfer, the majority of risk arose from scheme employers without a bond and those ending as an employer body; specialist legal advice was being used to resolve   | J Adam |

these impasses.

2.8 It was clarified that to address red category scheme employers where delay in admission was a consequence of delayed transfer of information, a process was being developed to communicate to the ceding employer the lack of information being received from the admitted employer and the risk that fell back to the ceding employer. This would be trialled for transfers within the County Council itself to emphasise to finance managers and service area managers the need for their help in pressuring admitted bodies for the information; if the trial was successful it would be progressed to non-County Council bodies.

2.9 In relation to Part 2: Administering Authority Report (Appendix C), M Allen clarified that the National Scheme Advisory Board were currently involved in comparing similar funds as a method of benchmarking, and officers agreed to examine the reports of other funds for comparison.

J Adam

### **Conclusion:**

2.10 The Pension Board commented as above and noted the content of the report.

### **3. ANNUAL REPORT OF THE PENSION BOARD 15/16 & 16/17**

[Officer Contact: Jolyon Adam, Finance Manager, Specialist Accounting (Tel: 01992 555078), Vishal Raj, Accountancy Officer, Specialist Accounting (Tel: 01992 658104)]

3.1 The Board received the first summary report on the activity of the Pension Board, covering 1 April 2015 to 31 March 2017, and noted that future reports would be produced annually for the period 1 April to 31 March and presented to the September meeting. In light of this time frame the intervening period would be covered by a short report to the September 2017 meeting. The report covered the board structure, constitutional and membership changes; frequency, dates and content of the meetings; the forward plan for 2017/18; training sessions delivered and training forward plan.

J Adam  
V Raj

3.2 It was highlighted that the Board's training plan worked on a 2 year cycle and that the next training session was likely to take place jointly with the Pensions Committee in June 2017.

J Adam

3.3 Subsequent to discussion officers agree to add to the forward plan the Audit report and also the retendering of the Administration contract.

J Adam

3.4 In discussion Members heard that as a significant and ongoing

**CHAIRMAN'S  
INITIALS**

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project, ACCESS pooling was scheduled on every agenda of the Board for 2017-18. Further to this, in light of the fact that there was not a further meeting of the board before Pensions Committee on 31 March 2017, officers agreed to circulate the Revised Investment Strategy to the Board for their comments, to coincide with its publication for the Pensions Committee meeting of 31 March 2017.

P Towey  
T A Baker

3.5 To concern about responsibility for cost control of running the pension scheme it was clarified that the annual costs were reported via the reports and accounts; Pensions Committee were the legally responsible body and delegated the day to day operation to the section 151 officer (the Director of Resources). Members heard that the 'Cost of Investment Management report' which went to Pensions Committee would also be brought before the Board; Value for money issues were considered in the investment strategy.

P Towey

3.6 During discussion of possible conflict of interest in the complaints procedure in relation to complaints against the County Council, Members were advised that there was an independent complaints process. If the complaint was not resolved in a one to one basis it was escalated as necessary through an Internal Dispute Resolution Procedure: first through the Assistant Director (Finance) for administering authority related complaints with the Chief Finance Officer as the hearing officer, then through the Chief Legal Officer and finally the Ombudsman. It was emphasised that the Board's task was to check the underlying structural issues that caused complaints as addressed in London Pensions Fund Authority (LPFA) administration reports.

3.7 In response to questions the Board were advised that the Pensions Committee received an annual report on the Investment Managers' voting behaviour. They heard that The Fund used a proxy voting service called ISS which provided direction to the investment managers on how they should vote at the AGMs and EGMs of the top 350 FTSE ranked UK companies. The report provided Pensions Committee with details of the voting activity during the year and any exceptions where managers had not followed ISS guidance. In certain cases, investment managers would seek prior approval from the Fund to vote against guidance and this would either be approved or not following discussion with the manager, investment consultant and officers. Where managers had not sought prior approval and voted against guidance, they were asked to explain their decision and ensure that controls were put in place to avoid this happening in the future. The Committee had questioned whether managers should receive full discretion to vote on all matters in the future and officers agreed to bring to a future meeting of Pensions Committee a report with options for consideration.

## **Conclusion:**

3.8 The Pension Board commented as above and noted the report content.

## **4. REVIEW OF THE OPERATION OF THE PENSION BOARD – ONE YEAR ON**

[Officer Contact: Jill Digby (Chairman);  
Jolyon Adam, Finance Manager Specialist Accounting  
(Tel: 01992 555078)]

4.1 Members received a report which reviewed the effectiveness of the Pension Board after its first year of operation encompassing progress against core objectives, future opportunities for the Board to effectively meet its responsibilities and findings from other LGPS Pension Boards in relation to best practice.

4.2 The Board's role was noted (Members were directed to Appendix A to the report detailing its full responsibilities), its membership structure, the appointing bodies and the four year term of office.

4.3 It was noted that a report which reviewed the constitutional ambiguity relating to alignment of Member's terms of office to Board cycles or from date of appointment, together with appointment of fund member representatives by the Administering Authority would be brought to the July 2017 meeting of the Board.

4.4 Members were referred to Table 1 of the report for the detail of the eight areas of the Board's performance and activities against objectives that required development. This included the need to decide how the Board reviewed the training plans of the Pensions Committee and officers with delegated responsibilities for the Pension Fund, also a potential role in monitoring the actuary's investment consultant.

4.5 During discussion members heard that:

- The terms of reference of the Pensions Committee were determined by statute;
- the obligation of the Pension Committee to report on its significant actions to the LGPS Pension Board was enshrined in the County Council's constitution and forward plan which was published online;
- Pensions Committee had determined that the LGPS Pension Board had the capacity to scrutinise monitoring performance, particularly in relation to administration and risk, for referral back to Committee.

J Adam  
P Towey

4.6	The Members welcomed the positive comparison of Hertfordshire's LGPS Pension Board to the operation of other LGPS Pension Boards in the CiPFA Pension Boards Survey.	Members, J Adam
4.7	The chairman requested that Board members forward their suggestions in relation to the operation of the Board and potential changes to the constitution to Jolyon Adam for consideration at the next meeting.	Board members
4.8	It was noted that communication between the administering body and members of the scheme was missing from the Customer Service table and officers agreed to put this on the forward plan.	
4.9	Following discussion of the CiPFA Pension Boards Survey and the need for LGPS Pension Board to pick up on any issues that were currently falling between the Pension Board and the Pensions Committee, officers confirmed that at the next meeting of the Board Members would be asked to agree that the LGPS Pension Board Chairman attended Pension Committee meetings in an ex officio, non-voting, observer capacity.	J Adam P Towey
4.10	In response to further discussion officers agreed to look at the practice of other Pension Boards in respect of remunerating the chairman for attending additional meetings.	J Adam P Towey
<b>Conclusions:</b>		
4.11	The Pension Board commented as above on the report, and discussed areas for change or development which they saw as beneficial to the operation of the Board.	
<b>5.</b>	<b>FUNDING STRATEGY STATEMENT &amp; CONSULTATION RESPONSE</b>	
	[Officer Contact: Jolyon Adam, Finance Manager Specialist Accounting (Tel: 01992 555078)]	
5.1	The Board received a report on the results of the consultation undertaken on the 2016 Funding Strategy Statement (FSS) for the Hertfordshire Pension Fund, and the finalised version of the statement (after consultation with the Fund's employers) which was due for approval by the Pension Committee by 31 March 2017.	
5.2	Members were referred to Appendix A for the detail of the amended FSS, and to point 5.2 of the report for the update and amendment made following the calculation and distribution of valuation results to employers.	
5.3	The Board heard that the actuarial assumptions were bespoke only in respect of demographic / geographical location of pension fund	

members and, due to the complexity of working on third parties, did not extend to career / type of employment. The rise in employer contributions due to the increase in life expectancy was highlighted.

- 5.4 Members expressed concern about the LGPS fund's ability to absorb the costs of increased employer's contributions should admitted employers fail and officers confirmed that this would be raised as part of the communications strategy.
- 5.5 The Board heard that the low level of employer engagement with the consultation could be improved by simpler communications. This would address the fact that where scheme employers had only a limited number of staff working in pensions, it was likely that none of them would understand the technical information in the strategy.

**Conclusion:**

- 5.6 The Pension Board noted the updated Funding Strategy Statement.

**6. GOVERNANCE: LGPS INVESTMENT POOLING INTER AUTHORITY AGREEMENT**

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

- 6.1 The Board received a progress report on the work to establish the ACCESS Pension Pool and in particular the delegation of functions to a joint governance committee made up of member representatives from the eleven fund members of ACCESS.
- 6.2 Members noted the makeup of the Joint Governance Committee, its responsibilities, voting structure, procurement of outside legal assistance for the Inter Authority Agreement and selection of the initial host authority responsible for the secretariat function, also detail of cost sharing between member funds. The Board were referred to Appendix 1 for the draft constitution of the Joint Governance Committee and Appendix 2 for the specific functions delegated to it.
- 6.3 It was highlighted that whilst the costs of funds' investments would be shared according to the value of each fund's investments, the cost of participating in the pool and transition costs of moving assets to or with the pool would not. Some assets, e.g. private equity, property assets, passive management vehicles and life policies, would be held outside the pool.
- 6.4 The Board were advised that::
- the third party operator contract was for 5 years+1+1 as there was a general intention that there would be transition to

P Towey  
J Adam

- owning rather than renting the operator in the future;
- Hertfordshire County Council was leading on the procurement of the legal advice; Kent were leading on the procurement of the operator;
- due to the costs of transition it was expected the break-even point should be approximately 4-5 years;
- It was estimated that the annual savings would ultimately be £40m to the ACCESS funds;
- as Pension Fund assets were managed separately for each of the participating authorities, there was no risk that they could be used to address deficits in participating authorities;
- to ensure Hertfordshire was always represented at meetings the chairman and vice chairman were both designated as representatives of the pool.

6.5 Members were advised that reports on incurred procurement costs would come to both Pension Committee and LGPS Pension Board, also that the POOL report would be on the Part 1 agenda.

P Towey

6.6 Given that all members of the Joint Governance Committee are County Councillors, elected at the same time every 4 years, the Board asked for consideration to be given to mitigating the risk that all JGC members could lose their seats at the same time.

#### **Conclusions:**

6.7 The Pension Board noted the content of the report.

### **7 LONDON PENSIONS FUND AUTHORITY LOCAL GOVERNMENT PENSION FUND ADMINISTRATION REPORT**

[Contact: Mike Allen – Director of Pensions (LPFA)]

7.1 Members received the quarter 3 2016/17 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.

7.2 LPFA performance to service level agreement was 72% during the period. There was on-time processing for all but deferred benefit (DB) cases (the latter resulting from the negative impact of untimely notification of scheme leavers by Scheme Employers).

7.3 Members welcomed the significant progress made by the LPFA in processing outstanding DB cases, as evidenced by their reduction from 2500 in June 2016 to 450, but were advised that due to the complexity of the remaining cases and staffing issues in the LPFA

team, May 2017 was a more realistic end date for clearance of the backlog. Officers requested for the LPFA to provide an action plan for clearance of the remaining DB cases and refer it to the Board.

M Allen

7.4 The Board heard that, to ensure employers informed affected pensioners that their Third Tier III Health pensions would cease after 3 years unless uplifted to the Second Tier, the LPFA would trial alerting employers to this responsibility 3 months earlier than previously.

T Mutter

7.5 In terms of Scheme Employer Indicators, Members heard that of the 8 'Employers Not Meeting Statutory Payment Deadlines' one was related to a death in service and the time required to train the new clerk.

7.6 Members heard that the LPFA had made an early start on the next stage of the Guaranteed Minimum Pension (GMP) reconciliation project i.e. reconciliation of records as far back as 1978 which did not agree between the County Council and HMRC and vice versa and noted that progress on payroll revisions, dependent pensions and orphan records. Officers requested that the LPFA provide future meetings with a table of matched records, those still to be resolved and progress made.

LPFA  
P Towey  
J Adam

7.7 Concern was expressed by the Board about the additional cost that could potentially be loaded onto the LGPS, in relation to the three options under consideration by the government for long term treatment of GMP's held in the public sector regarding indexation and equalisation.

### Conclusions:

7.8 The Pension Board noted the content of the report.

## 8 INVESTMENT STRATEGY REVIEW

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

8.1 Members received a report which informed them of the work of the investment strategy working group (ISWG) in the review of the Fund's investment strategy.

8.2 The Board heard that under the new Local Government Pension Scheme (Management and Investment Funds) regulation 2016, the LGPS Fund was required to have a new investment strategy in place by 1 April 2017. In pursuance of this the ISWG had reviewed the current position of the fund in terms of risk, return objectives, progression of funding level since last review in 2010/11, suitability of the 65/35 growth/defensive strategy (see Appendix A Mercer

Investment Strategy Update) and considered the areas for the new strategy as per government guidance e.g. transition from carbon intensive to more environmentally friendly strategies in any companies within the LGPS pension portfolio.

- 8.3 Members heard that as the funding level had increased from 82% in 2013 to 91% in 2016, the investment strategy review should examine the possibility of reducing the current levels of investment risk to maintain the current funding level (e.g. by a move to defensive assets such as bonds and inflation linked assets). In addition the review should ensure a high probability that, over a 21 year time frame, the fund achieved the 100% funded objective with affordable future contribution rates. The Board were referred to the table of proposed strawmen portfolios in Appendix A which had been considered by the working group and noted that the consideration of these would be reflected in the final investment strategy. They were advised that an investment consultant would clarify how each decision had been arrived at and that any changes would be phased over several years.

- 8.4 Officers confirmed that the Board would have sight of the draft investment strategy when it was published and would also have opportunity to comment on it prior to its presentation at Pensions Committee on 31 March 2017.

P Towey

#### **Conclusions:**

- 8.5 The Board noted the content of the report.

#### **9. DATES OF FUTURE MEETINGS**

- 9.1 3 July 2017 at 10am

- 9.2 The Chairman moved to close the Part I agenda.

#### **10. OTHER PART I BUSINESS**

- 10.1 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**

### **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 31 DECEMBER 2016**

**KATHRYN PETTITT  
CHIEF LEGAL OFFICER**

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

**CHAIRMAN'S  
INITIALS**

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