

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

PENSIONS BOARD LGPS 20 SEPTEMBER 2017

ATTENDANCE

MEMBERS OF THE BOARD

Employer Representatives: D A Ashley, M Green (substituted for G Clay), D Graham, P Neville (Chairman)

Member Representatives: D Devereux, J Digby (Vice Chairman), K Harding

STANDING SUBSTITUTE MEMBERS

Employer Representatives: J Anderton, M Green, T W Hone, J Hurley

Member Representatives: Vacant

Upon consideration of the agenda for the Pensions Board LGPS meeting on 20 September 2017 as circulated, copy annexed, conclusions were reached and are recorded below:

PART I ('OPEN') BUSINESS

1. FORMAL APPOINTMENT OF CHAIRMAN

The Democratic Services Officer invited Board members to propose a nomination for the position of Chairman. P Neville was nominated by D A Ashley and seconded by M Green. There were no other nominations. P Neville was duly appointed as Chairman for the LGPS Pensions Board.

2. FORMAL APPOINTMENT OF VICE CHAIRMAN

The Chairman invited Board members to propose a nomination for the position of Vice Chairman. J Digby was nominated by K Harding and seconded by D Devereux. There were no other nominations. J Digby was appointed as Vice Chairman.

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

ACTION

3. MINUTES PART 1

- 3.1 The Minutes of the Pensions Board LGPS meeting held on 3 July 2017 were confirmed as a correct record and signed by the Chairman.

4. HERTFORDSHIRE AUDIT RESULTS REPORT 2016/17 – PENSION FUND

[Contact: Ernst & Young]

- 4.1 The Board considered the Hertfordshire Pension Fund Audit Results report 2016/2017 of the external auditors Ernst & Young.
- 4.2 Members heard that the report had already been viewed by the Pensions Committee where the auditors had highlighted that as in previous years materiality had been set at 1% of net assets i.e. £42.2m, there had been minimal disclosure changes and there were no other matters to report; an unqualified audit opinion had been issued for the fund's financial statements.
- 4.3 The Board welcomed the report and congratulated officers on successfully achieving a faster closure than in previous years, which put the fund in a good position in preparation for the early closure deadlines required for the 2017/18 accounts.
- 4.4 During discussion Members heard that the fee level for fund managers was annually negotiated at a Fund level and had been reducing over the years.

Conclusion:

- 4.5 The Board noted the Audit Results Report 2016/17 and the Letter of Representation which had been signed at the Audit Committee meeting of 11 September 2017.

5. RESPONSE TO THE AUDIT RESULTS REPORT 2016/17 – PENSION FUND

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

- 5.1 The Committee received a report providing a response to the Audit Results Report 2014/15 – Pensions Fund.
- 5.2 The Board heard that there were no recommendations, any errors identified during the audit had been minor and that this had been a strong audit result for the Pension Fund.

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5.3 There were no questions from the Board.

Conclusion:

5.4 The Board noted the response to the Audit Results Report 2016/17 for the Pension Fund, and the Letter of Representation which had been signed by the Director of Resources and Chairman of the Audit Committee.

6. PENSION FUND ANNUAL REPORT AND STATEMENT OF ACCOUNTS 2016/17

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

6.1 The Board considered a report on the audited Pension Fund Annual Report and Statement of Accounts 2016/17(appendix A); the updated Governance Compliance Statement (GCS) which reflected recent regulatory and operational changes (appendix B); and the updated Communication Policy Statement (appendix C).

6.2 After Members noted the key movements in the Pension Fund as detailed in the Statement of Accounts, officers clarified that the overall investment benchmark was a composite of all the benchmarks that the performance of the investment managers was measured against.

6.3 During discussion on the Statement of Accounts Members were advised that the 2016/17 increase of £659.1m in the Pension fund resulted from the overall performance of markets and assets in which the Fund was invested; the investment strategy for the Fund was diversified into a number of different asset classes to capture the benefits of growth whilst mitigating risk. The Pensions Committee had recently reviewed and agreed a new investment strategy which would de-risk the fund in favour of defensive assets that matched the Fund's liabilities (e.g. assets such as property, as Bonds were currently expensive). Officers informed the Board that investments in new assets might take some time to invest in due to the demand for these illiquid assets and agreed to inform the Board of how the Fund would transition to this new strategy.

J Adam
P Towey

6.4 In relation to ceased employers (employers with no active members but with some outstanding liabilities whose pensioners are or will be paid from the Pension Fund) officers clarified that many of the bodies were small with only 3-4 employees and were classified as a red risk. On the basis that cessation valuations were carried out on a gilt basis and the resultant potential for large debts, Members requested the list of ceased employers also include these deficits.

J Adam
P Towey

6.5 With respect to the updated Governance Compliance Statement (GCS), officers clarified that the focus of the Board's responsibility to review training of elected Members and officers with delegated responsibilities was to ensure that a training plan was in place. Officers confirmed that a training plan would form part of the Pension Committee business plan for the forthcoming year.

P Towey
J Adam

6.6 During discussion around engagement of Pensions Committee with Pensions Boards' comments on the Communication Policy, officers clarified that the updated Communication Policy Statement would reflect any suggested changes to the communication policy made by the board.

Conclusions:

6.7 The Board noted the audited Report and Accounts for 2016/17 included at Appendix A, the revised Governance Compliance Statement included at Appendix B, and the Communication Policy Statement included at Appendix C.

7 ANNUAL REPORT OF THE PENSION BOARD 2016/17

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

7.1 Board members received a report which provided a summary on the activity of the LGPS Pensions Board for the year from 1 April 2016 to 31 March 2017, including the activity of, and changes within, the Pension Board over the previous year of operation, as well as forward planning for key themes and pieces of work for the coming year.

7.2 Officers clarified that although the 2016/17 report covered the period April 2016 to September 2017 subsequent Annual Reports of the Pensions Board would be produced annually and presented to the September meeting following the financial year end.

7.3 During discussion of the rolling two year training plan Members expressed support for the scheduling of training sessions directly prior to Board meetings; officers confirmed that if required / requested further additional training session could be organised. Members heard that due to the commitments of the Elected County Council membership of Pensions Committee, Risk Register training for both Pensions Board and Pensions Committee would take place separately in conjunction with their respective meetings. Officers agreed to confirm the 2017-18 dates of Pensions Board meetings to ensure that the membership could attend.

T Baker

7.4 During discussion of the activity of pensions schemes similar to the LGPS, Members highlighted that the police pension board was

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considering demography and understanding data accuracy - the latter being a current focus of the Pensions Regulator.

- 7.5 By way of email to the vice chairman a member noted unsatisfactory experiences of the LPP's response times and methods and that, as the Service Level Agreement (SLA) was always met, this indicated that the SLA was not fit for purpose and the Key Performance Indicators should be reviewed.

Conclusions:

- 7.6 The Pensions Board commented on and noted the content of the report.

8. LGPS PENSION BOARD CONSTITUTION MEMBERSHIP APPOINTMENT REVIEW

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

- 8.1 The Board considered a report which provided an update on the review of the Pension Board Constitution and addressed some of the questions raised by members at its meeting on 3 July 2017.
- 8.2 During discussion officers clarified that once the current board had stepped down on 31 March 2019, for the first term of office of the new Board in 2019 the Member Board Members (MBMs) would be appointed by the County Council as the members could not appoint themselves. For subsequent terms MBM appointment (including substitute members) would be via a panel comprised of officers and the Board chairman and vice chairman; this also enabled substitute members to replace a full member who stepped down. The job description would be discussed with the chairman and vice chairman of the current Board.
- 8.3 The Board raised the issue of the yearly member side / employer side rotation of the chairman and vice chairman every September in relation to the stepping down of the Board on 31 March 2019.
- 8.4 Further to the above discussion Members variously commented:
- That point 4.7 of the Board's constitution should include the phrase 'appointed by the County Council, chairman and vice chairman of the Pensions Board';
 - That in view of the fact that 10% of the scheme membership were members of a trade union there should be a place for a trade union representative on the board and that this should be reflected in the constitution;
- 8.5 In relation to the issue of remuneration for the chairman, officers confirmed, after discussion with legal officers, that board members

P Towey

would be paid allowances and expenses as per the Council's member and allowances policy.

8.6 During debate on Pensions Board independence, officers emphasised that the Board's constitution was encompassed in the County Council constitution. Further to this the terms of reference for governance and compliance directed that (as the Board was not a decision making body) agreement of the Board's constitution and any changes to it was via the Pensions Committee which then made recommendation to full Council for approval. Officers agreed to seek legal confirmation of this and provide members with the advice.

P Towey

8.7 Members referred officers to the LGPS secretariat for codifications and suggested it would be helpful to understand the variety of approaches undertaken by the ACCESS group.

P Towey

8.8 The Board suggested various means of approaching the issue of recruiting suitably skilled MBMs including: online election and/or involving existing members in the process (made possible by the rotational approach); notification of all eligible employers for potential members; approaching the full membership every four years. Members also observed that if possible the MBM's should be a mix of active, deferred and pensioner members reflective of the age and diversity of the scheme's members.

8.9 Officers confirmed that further work would be undertaken with the legal team and a report on the Pension Board Constitution and issues raised would be brought back to the Board in 2018.

P Towey

Conclusions:

8.10 The Pensions Board commented on the report.

9. LOCAL PENSIONS PARTNERSHIP LOCAL GOVERNMENT PENSION FUND ADMINISTRATION REPORT

[Contact: Taryn Mutter – Head of Client Delivery (LPP)]

9.1 Members received the quarter one 2017/18 update from the Local Pensions Partnership (LPP) 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.

9.2 T Mutter introduced George Graham (Managing Director LPP) and Diane Lister (Head of 'Your Pension' Service - LPP) to the Board.

9.3 During discussion of the LPP Pensions Administration Service and

Service Level Agreement (SLA) and Volumes, Members noted that the Service had met the target of clearing 600 deferred benefit cases per month. LPP clarified that as the flow of leavers was both ongoing and variable (including a seasonal element within schools) the focus should be on cases dealt with outside of the SLA. Officers commented that, as the SLA had been established a number of years ago and the number of employers in the Pension Fund was now greater, the SLA should be reviewed. In relation to processing death cases LPP now had additional resource in their Preston office to chase information required to move cases out of 'on hold', but that this had impacted on the 5 day SLA for death grants as these cases were being re-opened to see if they could be progressed more quickly.

P Towey

- 9.4 In relation to the Annual Benefit Statement Exercise 2017 and the error in underrating 8,766 death grants, LPP clarified that as a matter of course random checks were carried out on these calculations, however the calculations were complicated by differing regulations for pre and post 2008 and the errors had arisen from incorrect manual calculations. Members observed that computerisation of the system and online publishing in 2018 would eliminate the opportunity for error. Officers confirmed that a review of the controls had been requested and that these were being worked through with the LPP.
- 9.5 Members were advised that the complaint against the Administering Authority had now been closed.
- 9.6 The Board heard that as part of the Employer Covenant the number of employers who had still to answer the annual employer survey now stood at 84;
- 9.7 During discussion around the GMP Reconciliation Project and the net impact on Payroll Revisions of an overpayment of £394,499 Members heard that this was in line with other authorities and that affected individuals would henceforth receive the correct payments.
- 9.8 LPP clarified that discrepancies between Annual Benefit Statements and the related information online, which had arisen from issues around CARE and incorporation of inflation, were being addressed on a monthly basis.
- 9.9 The Board welcomed LPPs achievement of a Customer Excellence Award across all of its sites.
- 9.10 G Graham detailed the LPPs New Operating Model for its Administration Business due for implementation in 2018. Members noted that its purpose was standardisation via a series of three hubs delivering key aspects of the business and each of which would also carry out the full range of pension administration

functions. Economies of scale would be achieved via standardisation and concentration of activity in lower cost places, whilst increased productivity would be achieved by changes to the way in which things were done. The Board heard that all staff would operate across all customers regardless of where they were based thus staff resources could be directed to business pressures as they arose. T Mutter would deal with the engagement hub but would still provide support to Hertfordshire.

Conclusion

- 9.11 The Board noted the contents of the report.

10. PENSION FUND ASSET POOLING – ACCESS UPDATE

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

- 10.1 The Board receive a report which reviewed activities undertaken by the ACCESS group since July 2017.
- 10.2 During discussion officers clarified that the Client Role was still in development, it would be hosted by one of the funds and that succession planning was entrained as some officers could be TUPE'd from current roles.
- 10.3 Officer's highlighted that there had been 21 expressions of interest in the tender for the role of Operator but did not currently have the number of actual bids. Evaluation of the bids would take place in October/November with a recommendation to the JGC meeting in November.
- 10.4 The chairman left the meeting and the vice chairman assumed the role of chairman for the remainder of the meeting.

Conclusions:

- 10.5 The Pensions Board noted the content of the report.

11. PENSION FUND GOVERNANCE AND RISK MANAGEMENT REPORT

[Officer Contact:
Jolyon Adam, Finance Manager (Tel: 01992 555 078);
Antony Kindell, Accountancy Officer (Tel: 01992 556895)]

- 11.1 The Board received a quarterly report on governance and risk management of the Pension Fund for 1 April to 30 June 2017 which also encompassed the Administering Authority Report on Performance Indicators for the Administration Strategy; specific

scheme Employer Matters; and details of reports presented to the previous Pension Committee which were not on the Pension Board agenda, including its response to feedback or comments from the Board. Officers summarised the key changes in the last quarter.

- 11.2 In relation to Governance and Risk Management and employers in the red risk category, officers clarified that there had been limited progress on finalising these cases during the quarter due to 66% turnover of staff within the Pension Team, and a necessary familiarisation period for new staff now focussed on dealing with this issue.
- 11.3 Members heard that Appendix D to the report which detailed the 52 employers in the red risk category alongside a scoring category and the reason for categorisation, and Appendix E to the report which detailed the targeted action plan developed to deal with the Outstanding Admission Agreements would, due to the commercial sensitivity of this information, be presented and discussed in PART II of the meeting.
- 11.4 Officers confirmed that Squire Patton and Boggs (SPB) advice would be sought on protection of ceding bodies, and that the 8 December report would include SPB's advice on application of incentives for admitted bodies to complete and seal their Admission Agreements.
- 11.5 The Chairman moved the meeting into PART II (Closed Session) and passed the decision at paragraph 11.6.
- 11.6 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 of business on the grounds that it involves the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A to the said Act and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

J Adam
A Kindell

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 GOVERNANCE AND RISK MANAGEMENT REPORT

In relation to **AGENDA ITEM 11** (of Part I):
PART II appendices:

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Appendix D: List of Scheme Employers in 'Red Risk Category'
Appendix E: Outstanding Admission Agreement Action Plan

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

**3. PENSION FUND – FUNDING AND INVESTMENT REPORT
(Formerly PERFORMANCE REPORT) AS AT 30 JUNE 2017**

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

11.7 Following discussion on the Part II report on the item referred to at 11.3 above and Recommendations, the Chairman moved the meeting back into Part I (Open Session) and considered the Part I Recommendations and made the decision at 11.8 below.

Conclusions:

11.8 The Pension Board commented on as in PART II and noted the content of the report.

12. DATES OF FUTURE MEETINGS

12.1 The Board noted the dates of future meetings as follows:

12.2 8 December 2017
20 March 2018
18 July 2018

The Chairman moved to close the Part I agenda.

OTHER PART I BUSINESS

There was no other PART I business.

**KATHRYN PETTITT
CHIEF LEGAL OFFICER**

CHAIRMAN_____

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