

## Minutes



To: All Members of the Pension 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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### **PENSION BOARD LGPS 18 JULY 2018**

#### **ATTENDANCE**

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

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

**Member Representatives:** M Collier, J Digby (Vice Chairman), K O'Daly, C Roberts

#### **STANDING SUBSTITUTE MEMBERS**

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

**Member Representatives:**

Upon consideration of the agenda for the Pension Board LGPS meeting on 18 July 2018 as circulated, copy annexed, conclusions were reached and are recorded below:

#### **Chairman's Announcements:**

- i. *M Collier and K O'Daly were welcomed to the Board.*
- ii. *C Roberts had given notice that he would be resigning from the Board following the 21 September 2018 meeting.*

*Note: D Ashley, M Collier and J Digby declared a disclosable pecuniary interest as they were retired members of the LGPS in receipt of a pension. They remained in the room and participated in the debates and votes.*

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

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

- 1.1 The Minutes (Part I) of the LGPS Pension Board meeting held on 20 March 2018 were confirmed as a correct record and signed by the Chairman.
- 1.2 The Chairman clarified that discussions had been held with officers in relation to whether actions would benefit from associated dates and it had been concluded that as the Board's advisers and Officers had always taken requested actions timeously and no critical dates had ever been missed, the nature of the Board's business made it inappropriate to put dates to the actions in the Minutes as a general

policy.

## **2. DRAFT HERTFORDSHIRE PENSION FUND AUDIT RESULTS REPORT FOR THE YEAR ENDED 31 MARCH 2018**

[Contact: Neil Harris, Associate Partner, For and on Behalf of Ernst & Young LLP]

- 2.1 The Board received the Draft Hertfordshire Pension Fund Audit Results report for the year ended 31 March 2018.
- 2.2 Neil Harris of Ernst & Young (EY) confirmed that subsequent to publication of the report, audit work on the Pension Fund had been concluded and any issues remaining were procedural; the audit had resulted in an excellent outcome for the fund. There were no significant matters to report and an unqualified opinion would be issued on the Pension Fund's financial statements. Officers were thanked for their work and assistance in the audit.
- 2.3 Audit had identified 2 main areas of risk to the fund: management override (no management override issues were identified), and valuation of the more complex investments within the fund which relied on non-observable market data. Consequently a substantive approach had been taken to valuation of investments rather than relying on internal audit; EY's methodology from previous years had been applied consistently for 2017-18 but now employed a stricter application of it i.e. lower testing thresholds for greater levels of risk.
- 2.4 Following the Audit Committee Planning report of March 2018 a more up-to-date valuation estimate of the Pension Fund assets had been provided, leading to a rise in the threshold for "materiality" from £84.8m to £89.9m based on the increase in Net Assets. Nonetheless the materiality threshold remained the same as a percentage of Net Assets and risks remained consistent with EY's initial assessment in the Planning report.

### **Conclusion:**

- 2.5 The Board noted the Hertfordshire Pension Fund Audit Results Report for the year ended 31 March 2018.

## **3. RESPONSE TO THE AUDIT RESULTS REPORT 2017/18 – PENSION FUND**

- 3.1 [Contact: James Kidd, Senior Accountant (Tel: 01992 555706)]
- 3.2 The Committee received a report providing a response to the Audit Results Report (ARR) 2017/18 – Pension Fund.

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- 3.3 There were no recommendations from the EY ARR 2017/18 for the Pension Fund 2017/18 and any adjustments were minor. The Letter of Representation ( LoR), including issues of independence, would be signed in the afternoon at Audit Committee following correction of the following typographical errors: (corrections in **bold**)

Appendix A, LoR, Page 3, Point 4 to read:

*We have made available to you all minutes of the meetings of members of the management of the Fund and committees of members of the management of the Fund (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting on the following date – **18th July 2018.***

Appendix A, LoR, Page 4, section D, Point 3 to read

*We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, **and confirm that we have given no guarantees to third parties.***

- 3.4 In response to a Board member's question officers clarified that the fees for the fund had decreased however recruitment of more staff was being considered to deal with the increasing complexity of the Pension Fund and growing numbers of employers within the scheme.

**Conclusions:**

- 3.5 That the Board noted the response to the Audit Results Report 2017/18, and the Letter of Representation which would be signed at the Audit Committee meeting of 18 July 2018.

**4. PENSION FUND ANNUAL REPORT AND STATEMENT OF ACCOUNTS 2017/18**

[Contact: James Kidd, Senior Accountant (Tel: 01992 555706)]

- 4.1 The Board received the audited Pension Fund Annual Report and Statement of Accounts for 2017/18 ("Report and Accounts").
- 4.2 The Board noted the detail of the summary and that extracts of the Report and Accounts would be included within the County Council's Statement of Accounts submitted to Audit Committee in the afternoon (18 July 2018).
- 4.3 During a wide ranging discussion the Board heard that:
- in terms of sensitivity analysis an increase in the discount rate had a favourable impact on the fund; the desired outcome being for the assets to outperform the liabilities;
  - LPP had confirmed that all the admitted bodies had implemented auto enrolment and that the latter was a major factor in the increase in Fund membership;

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- A small income was made from securities lending by the Fund however, there was an associated risk with lending securities and borrowers from the Fund. The Fund's custodian, BNY Mellon, managed the programme ensuring that the borrower provided the correct amount and type of collateral;
- In terms of potential risk associated with stock lending Mercer had advised that the even in the financial crisis of 2008 funds had not been impacted;
- In terms of the Government's compliance statement and scheme member representation, 33% of the County Council staff were Unison members and there was a Unison Observer on the Pensions Committee.

4.5 Members noted the following typographical corrections to the report (corrections in **bold**):

Page 4, point 5.3, third bullet point should read:

- *Actuarial Statement for **2017/18** (pages 17-18);*

Page 5, point 5.4 should read:

*This section includes the **2017/18 Pension Fund Accounts**, discussed in section 4 above. This includes the Fund Account and Net Asset statement, statement of accounting policies and notes to the accounts*

Page 5, point 5.5.2 should read:

*The performance of the Pension Fund's investments against benchmark over 2016/17 and the longer term. Performance over 17/18 **outperformed** with the general benchmark, with the fund returning 5.5% (net of fees) against a benchmark of **3.5%**.*

4.6 Members noted the following typographical corrections in relation to Appendix A to the report which had arisen as part of the Post Audit Clean (corrections in **bold**):

Page 6, **J Lloyd added** to the Pensions Committee membership during 2017/18;

**M Casey added, M Freeman removed and J Lloyd added** to the Pensions Committee membership after 22nd May 2018.

#### **Conclusions:**

4.7 The Pensions Board noted and commented on the audited Report and Accounts for 2017/18.

### **5. PENSION FUND GOVERNANCE AND RISK MANAGEMENT REPORT**

[Contact: James Kidd, Senior Accountant (Tel: 01992 555706)  
Antony Kindell, Accountancy Officer (Tel: 01992 556895)]

- 5.1. The Board received the quarterly report on governance and risk management of the Pension Fund for 1 January to 31 March 2018 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 meeting of the Pension Committee which were not on the Pension Board agenda, including its response to feedback or comments from the Board.
- 5.2 The Board welcomed the reduction in number of admission agreements which were outstanding for over 1 year.
- 5.3 In response to member questions regarding contractors for 2 admission bodies which were not responding to contract manager communications on progressing the Admission Agreement and Bond, officers clarified that ultimate responsibility lay with the ceding employer and the County Council was exploring the options of making the member(s) deferred or reporting the contractors to the Pension Regulator. When finalised, these options would be brought before the Board.
- 5.4 Although 7 scheme employers had exceeded their cumulative ill-health budget for 2017/18, 2018/19 and 2019/20 the strain cost was charged to the employers and thus recovered from them, so avoiding impact on the other employers in the Fund. Ill-health retirement insurance was also being explored.

J Kidd  
P Towey

**Conclusion:**

- 5.5 The Pension Board commented on and noted the content of the report.

**6. REPORT ON HERTFORDSHIRE COUNTY COUNCIL ANNUAL RETURN AND ANNUAL BENEFIT STATEMENTS**

[Contact: Rachel Wilson, Senior HR Officer, Strategy, Policy & Reward (Tel: 01992 588142)]

- 6.1 The Board received a report which advised that the annual return for Hertfordshire County Council for 2017-2018 would include amended pensionable allowances figures within the final salary figures (i.e. pre 2014) which had not been included in previous years' returns and clarified the impact of the change on Annual Benefit Statements (ABS) for employees.
- 6.2 The Board noted the detail of the changes to the returns and that the change would not impact what any employee had paid in pension contributions or their prospective benefits, only what had been reported in their ABS.

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- 6.3 During discussion officer's clarified that:
- the amended pensionable allowance would be taken into account for pensioners who had retired in 2017 and 2018;
  - the life-time allowance of pension members on a medium to high salary allowance would be unaffected as LPP always added in night time allowance, sleep- ins etc.;
  - LPP provided all the correct data during the 3 yearly valuation and as a consequence the benefits of the employer concerned were not undervalued in the fund;
  - the ABS was a projection and in future scheme members would have an accurate picture of their benefits;
  - the actual benefits were and would continue to be correct at retirement; the amount the pensioner received would not change.

**Conclusions:**

6.4 The LGPS Board noted the content of the report.

**7. LOCAL PENSIONS PARTNERSHIP LOCAL GOVERNMENT PENSION FUND ADMINISTRATION REPORT**

[Contact: Taryn Mutter – Head of Engagement and Customer Liaison (LPP)]

- 7.1 Members received the quarter four 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.
- 7.2 Members' attention was drawn to the challenges faced by LPP when it when live with its new operating model in early April 2018 i.e. the sheer volume of change and the beginning of the fiscal year, which were exacerbated by lower than anticipated productivity due to staff failure to meet daily targets despite having undergone training and change workshops to support the transition. This had resulted in a backlog of casework falling outside the due dates and impacted the Service Level Agreements (SLA's).
- 7.3 The Board expressed concern about the backlogs and impact on customer service that had resulted and noted the detail of the remedial action plan implemented on 29 May and that, to date, the backlog had reduced to 186 cases which would be cleared by the end of the week. Client SLA's for the daily due dates had been maintained from 2 July 2018 and performance to date had risen to 94% against SLA.
- 7.4 During discussion of the call answering times at the LPP contact centre, currently 6-8 minutes, LPP officers clarified that to improve

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this the call centre team had been doubled to 16 and was being further increased to 22, calls would also be directed across the LPP operation and the contact centre was now open from 8.00am-6 00pm.

- 7.5 On hearing that call back was being trialled to cover predictable daily peak call times and as part of this the caller would not lose their position in the queue, to ensure success Members suggested that a time for call back should be established with the caller to ensure their availability.
- 7.6 To member observations on the waiting times for email responses (up to 1 month in some cases) it was clarified that LPP staff had been offered overtime and contractors had also been employed to deal with the backlog. Emails that were not responded to become a general correspondence case.
- 7.7 LPP agreed:  
(i) to provide the call centre statistics in future reports;  
(ii) to provide the statistics for email response waiting times to the next meeting of the Board.
- 7.8 Members heard that once the initial transition issues had been resolved the new model would provide greater resilience as it enabled a focus on the appropriate expertise for each situation.
- 7.9 Further meetings between County Council officers and LPP were scheduled in regard of contract underperformance and the expectation of an improvement in the customer experience.
- 7.10 The potential benefit of a formal approach from the client when overseeing such situations and the option to report amber/red performance to the Pensions Regulator were discussed.
- 7.11 The Board heard that in instances of missing death grants, compensation was paid on top the belated death grant only for financial loss incurred due to late payment of the grant.

T Mutter  
J Crowhurst

P Towey

**Conclusion:**

- 7.12 The Board noted the contents of the report.

**8. SCHEME ADVISORY BOARD – CROSS POOL OPEN SESSION**

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

- 8.1 The Board received a report from the Chairman following his attendance at a Cross Pool session at a Local Government Association (LGA) meeting on the 27 March 2018.

8.2 Members heard that the Scheme Advisory Board assisted LGA member Councils (including Hertfordshire) with LGPS issues. The open session had enabled exchange of information about what the various Asset Pools were doing, including their governance arrangements; Hertfordshire was part of the ACCESS pool. The presentation circulated to delegates can be viewed at: [LGA Scheme Advisory Board-Cross Pool Open Forum -Main Slide Pack](#)

8.3 The Board noted the report of the Chairman of the Pension Board.

**9. DATES OF FUTURE MEETINGS:**

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

21 September 2018: 10.00 AM;  
10 December 2018: 10.00 AM;  
19 March 2019: 10.00 AM;  
19 July 2019: 10.00 AM

**10. OTHER PART I BUSINESS**

10.1 Following a Member question the Chairman assured the Board that the business of the Board was also raised with the Lead Officer outside of the meetings themselves including the reports requested.

10.2 There being no further PART I business the Chairman proposed and the Board resolved to move the meeting into PART II (Closed Session) and passed the decision at paragraph 10.3.

10.3 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.

10.4 The Chairman moved the meeting into PART II (Closed Session).

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

**1. MINUTES** of the "PART II" items of LGPS Pension Board meeting held on 20 March 2018.

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

**2. ACCESS UPDATE**



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 31 MARCH 2018**

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

- 4.** There being no further Part II business the Chairman closed the meeting.



**KATHRYN PETTITT  
CHIEF LEGAL OFFICER**

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

**CHAIRMAN'S  
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