

Minutes



To: All Members of the Pensions Committee

From: Legal, Democratic & Statutory Services
Ask for: Michelle Diprose
Ext: 25566

PENSIONS COMMITTEE 9 SEPTEMBER 2016

ATTENDANCE

MEMBERS OF THE PENSIONS COMMITTEE

J G L King, D E Lloyd, R G Parker, R Sangster, D T F Scudder, A Stevenson, J D Williams (Chairman)

REPRESENTATIVES OF HERTFORDSHIRE DISTRICT/BOROUGH COUNCILS

K Ayling, M Freeman

Upon consideration of the agenda for the Pensions Committee meeting on 12 July 2016 as circulated, copy annexed, conclusions were reached and are recorded below:

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.

PART I ('OPEN') BUSINESS

1. MINUTES

- 1.1 Minutes of the meeting of the Pensions Committee held on 12 July 2016 were confirmed as a correct record.

2. AUDIT RESULTS REPORT

- 2.1 P Irwin presented Ernst & Young's Audit Results Report and advised the Committee that the report will also be presented to the Audit Committee where the Annual Report and Statement of Accounts and the Letter of Representation will be signed off.
- 2.2 The Committee were advised that the audit had gone well and the working papers were of a good quality and comprehensive and they were expecting to confirm an unqualified opinion on the accounts.
- 2.3 In relation to a query regarding the -auditors' fees and if they were standard, Members were informed that fees were agreed at the beginning of the year and based on a standard framework that had not changed for several years.

ACTION

2.4 The Chairman commended officers for their contribution to what was a positive year for the pension fund in terms of reporting and compliance.

Conclusion

2.5 The Committee noted the report.

3. RESPONSE TO THE AUDIT RESULTS REPORT 2015/16 – PENSION FUND

3.1 The Committee received a report providing the response to Ernst & Young’s draft Audit Results Report for the Pensions Fund that was presented to them at Item 2 above.

3.2 The Committee were pleased to hear there were no recommendations arising from the report and that the auditors were expected to confirm an unqualified opinion on the accounts. The Committee also endorsed that the Management Letter of Representation, attached as Appendix A to the report would be signed off by the Director of Resources and the Chairman of the Audit Committee.

Conclusion

3.3 The Committee approved the response to the Audit Results Report 2015/16 for the Pensions Fund and that the Letter of Representation should be signed by the Director of Resources and the Chairman of the Audit Committee at the Audit Committee meeting of 23 September.

4. PENSION FUND ANNUAL REPORT AND STATEMENT OF ACCOUNTS 2015/16

4.1 The Committee received a report in relation to the audited Pension Fund Annual Report and Statement of Accounts and were invited to scrutinise and comment on the report (attached as Appendix A to the report). Pensions Committee were also requested to review and approve the revised Statement of Investment Principles (SIP) for 2016/17.

4.2 The Annual Report gave an overview of the key movements and figures for the Pension Fund. This included highlighting major changes within the Fund Account and Net Assets Statement, as well as changes within the SIP.

4.3 Members were informed that contributions from members and employees were slightly higher than last year’s figures and benefit payments to and on account of leavers had fallen slightly.

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- 4.4 Members heard that the number of members to the Pension Funds had increased by a further 4,539 from March 2015 to March 2016.
- 4.5 The Committee were informed that during 2015/16 the value of the Pension Fund had increased by £3.2m which was a 0.1% increase from the position as at 31 March 2015. It was noted that the investment return for the year was -0.2% (net of fees) which was in line with the benchmark for the year.
- 4.6 In relation to queries about the basis of Investment Manager fees, Members were informed that the fee schedules were set for each manager on either a fixed rate, performance related or ad valorem (based on the size of the portfolio) basis.

Conclusion

- 4.7 The Committee noted and commented on the audited Report and Accounts for 2015/16 and also approved the revised Statement of Investment Principles found on page 49 of the Report and Accounts.

5. RISK AND PERFORMANCE

- 5.1 The Committee received a report providing a quarterly update on the Risk and Performance for the Pension Fund period 1 April to 30 June 2016.
- 5.2 In summary the report provided an update on the reports presented to the Pensions Board in September and October 2016 respectively. These were the current status of Risk and Governance matters monitored as part of the Risk Register; the current status of risk monitoring of Scheme Employers and the performance of the Administering Authority measured against performance indicators set out in the Administration Strategy.

Conclusion

- 5.3 The Committee noted the report.

6. PENSION FUND ASSET POOLING – ACCESS UPDATE

- 6.1 The Committee received a report which summarised the conclusions of the September ACCESS Chairs meeting. The purpose of the meeting was to decide on whether to build its own regulated Collective Investment Vehicle (CIV) operator, or rent one from a third party. The report set out the recommendations reached by the Chairs of the ACCESS Pool for consideration by their respective pension committees.
- 6.2 The report provided an overview of the ACCESS Chair's Meeting,

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which debated a number of factors and assessments of the two options and included a presentation from CAPITA who illustrated the respective responsibilities and governance for a third party operator arrangement. The factors considered included:

- Regulatory risk
- Governance – accountability
- Governance – manager selection
- Timescale to implement
- Costs to establish or rent and run
- The size of the third party supplier market
- Supplier risk
- Long-term options to migrate from third party rental to an in-house/built solution

6.3 Committee were informed that the outcome of the ACCESS Chair’s meeting was unanimous support for the rental option, recognising that it overcame significant resourcing and regulatory challenges of building a CIV operator. Further, it didn’t preclude ACCESS building an operator capability in the future.

6.4 Committee were concerned about the ability to build out of a rental option, but were reassured by the findings of the ACCESS Chair’s meeting that procurement could ensure the option was available to build out at some point in the future. Committee were keen the rental agreement was constructed with this ultimate goal in mind in order to best facilitate transition at a later date.

6.5 There was a detailed discussion around the ability of the Pension Committee to make decisions about individual asset managers. Feedback was provided from the discussions held at the ACCESS Chair’s meeting that individual Pension Committees would not be able to ‘dismiss’ managers, but the pool could expect the operator to respond to requests for additional managers and funds and the Committee would make its own investment decisions across the different sub-funds provided by the CIV.

6.6 It was noted that the detailed procurement process followed when local Pension Committees appoint new managers would no longer be required.

6.7 In response to some concerns in relation to the Governance of ACCESS and whether an Independent Chair should be allocated, Members were advised that these items were on the next ACCESS agenda to discuss and a further report would be presented to a future meeting of the Pensions Committee. Members agreed there was value on having an Independent Chair to ensure there were clear responsibilities. Officers agreed they would take concerns raised by

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the Committee back to the next ACCESS group meeting.

Conclusions

6.8 The Committee noted and agreed the recommendation by the ACCESS Chairs to rent an operator with the flexibility to move to an owned model in future.

7. PENSION FUND ASSET POOLING – ACCESS COSTS

7.1 Members received a report providing the details of the costs incurred to date in preparing the ACCESS pooling submission and the amount attributed to the Hertfordshire Pension Fund. This information was requested by Members of the Pensions Committee at its last meeting. The report also included costs for Hymans project management and support in the preparation of the submission, as well as specialist legal costs incurred in the review of legal structures for the ACCESS Pool.

7.2 The Committee noted that work was underway with other pools to compare costs and the information would be shared with the Committee when it was available.

Conclusions

7.3 The Committee noted the report

8. DATES OF FUTURE MEETINGS

8.1 Members of the Committee noted the dates of future meetings, as follows:

- 27 October 2016 at 10am
- 18 November 2016 at 10am
- 24 February 2017 at 10am
- 31 March 2017 at 2pm
- 13 June 2017 at 10am

KATHRYN PETTITT
CHIEF LEGAL OFFICER **CHAIRMAN** _____

EXCLUSION OF PRESS AND PUBLIC

That under Section 100 (A) (4) of the Local Government Act 1972, the public be excluded from the meeting for items of business in 5, below on the grounds that they involve the likely disclosure of exempt information as defined in paragraph 3 of Part I of Schedule 12 to the said Act.

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- 1. PENSION FUND – FUNDING AND INVESTMENT REPORT AS AT 30 JUNE 2016**
 - 1.1 A note of discussion on this item of business is set out in the separate Part 2 minutes.
- 2. J P MORGAN UPDATE**
 - 2.1 A note of discussion on this item of business is set out in the separate Part 2 minutes.
- 3. INVESTMENT STRATEGY REVIEW**
 - 3.1 A note of discussion on this item of business is set out in the separate Part 2 minutes.
- 4. PRIVATE EQUITY ALLOCATION**
 - 4.1 A note of discussion on this item of business is set out in the separate Part 2 minutes.

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