

Minutes



To: All Members of the Pensions Committee

From: Legal, Democratic & Statutory Services
Ask for: Lisa Heaton
Ext: 25456

PENSIONS COMMITTEE 18 NOVEMBER 2016

ATTENDANCE

MEMBERS OF THE PENSIONS COMMITTEE

C M Hayward (Chairman), R J Henry, E M Gordon (substitution for J G L King), D E Lloyd, R G Parker, R Sangster, D T F Scudder, A M R Searing, A Stevenson, J D Williams (Vice-Chairman)

MEMBERS OF HERTFORDSHIRE DISTRICT/BOROUGH COUNCILS (NON-VOTING)

K Ayling, M Freeman

OTHER MEMBERS IN ATTENDANCE

D Devereux (Local Government Pension Scheme (LGPS) Pension Board and Unison Member)

Upon consideration of the agenda for the Pensions Committee meeting on 18 November 2016 as circulated, copy annexed, conclusions were reached and are recorded below:

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

CHAIRMAN'S ANNOUNCEMENT

The Chairman advised that for ease of reporting item 6 should be heard before item 5 in the proceedings; the order of business was varied accordingly.

PART I ('OPEN') BUSINESS

1. MINUTES

1.1 Minutes (Parts I and II) of the meeting of the Pensions Committee held on 27 October 2016 were confirmed as a correct record and

ACTION

signed by the Chairman.

2. QUATERLY RISK AND PERFORMANCE REPORT

[Officer Contact: Jolyon Adam, Finance Manager
(Tel: 01992555078)]

- 2.1 Members received a report the purpose of which was to provide the quarterly update on Risk and Performance for the Pension Fund for the period 1 July to 30 September 2016. The Committee was invited to note the reports to be presented to the December and November meetings of the Local Government Pensions Scheme (LGPS) and the Hertfordshire Fire and Rescue Service (HFRS) Pensions Boards.
- 2.2 Members attention was drawn to the Risk Register, Current Status and Activity Summary (Table 1) setting out risk control mechanisms aiming to avoid or reduce risk events in relation to the Pension Fund. Main activity changes were highlighted. At Section A the Committee was asked to note that the ACCESS pool was still waiting for it formal letter from Government to proceed with pooling as outlined in the July submission. The Minister for Local Government had requested to meet with ACCESS representatives in November to discuss the submission. A separate report regarding a review of the Investment Strategy would be considered at item 4 of the agenda. At Section B, Members were notified that all Parish & Town Councils had responded to the May 2016 consultations with decisions to remain in the pool for valuation purposes. At Section C, Members were advised hat a risk based approach, developed in conjunction with Hymans, had been adopted for the 2016 valuation. At Section D, Members noted that Hertfordshire was acting as lead administering authority for the procurement of legal advice for the ACCESS pool [also see item 5 below].
- 2.3 It was noted that overall risk statuses remained unchanged at Amber since last quarter for all four key risks.
- 2.4 Committee Members were updated on the current status of Employers Risk monitoring, noting that Scheme Employers were monitored on a monthly basis to measure the trend and current status of risk where scheme employers' covenants may have a detrimental impact on the Pension Fund. (Tables 2 and 3 of the report refer). Members were advised that the value of net liabilities for each risk category shown was based on the 2013 valuation and would be updated in the next quarterly report.
- 2.5 Clarification was sought on how the Employers Risk was quantified. Members heard that employers were risk rated for the 2016 valuation which influenced the level of employer contributions they would need to pay into the fund. This risk assessment took into account the strength of their covenant, which was calculated in terms of a number

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of factors including whether the employer had a bond of guarantor to cover their liabilities should they default and whether the employer had tax raising powers. The calculated risk score then influenced the minimum level of probability that the fund was willing to take that the employer would be paying a contribution rate which would fully fund their liabilities within a given timeframe. Members were further advised of a second element which was an ongoing risk assessment monitoring employers in terms of the risk they presented to the fund at any one time; this was based on a number of triggers which allocated points to the employer who could be Red rated or Amber rated by virtue of its cumulative score. The number of employers in each category and their assessed liabilities were monitored at the most recent valuation, giving an assessed quantification of the financial risk to the fund of Employer default. The Committee was advised that this method of measuring Employer Risk was considered robust and had been developed with the support of the scheme actuary Hymans.

- 2.6 Members also heard about the Administering Authority Performance Monitor, detailed at table 4 of the report, where the performance of the Administering Authority and scheme employers in managing and administering the Pension Fund was shown measured against performance indicators set out in the Administration Strategy. Members were apprised that work would shortly commence on the Internal Audit of Pensions Administration as outlined in the 2016/17 Shared Internal Audit Service (SIAS) Audit Plan. This was currently scheduled to commence during quarter 3. It was noted that during the quarter there were two new Local Pensions Fund Authority service complaints, compared to one in the previous quarter. Both of these complaints were resolved within the quarter.
- 2.7 Members queried the descriptive power of the Red, Amber and Green indicators and considered that more sensitivity within each rating would be helpful. Officers undertook to develop a method of direction indicator to help address this concern in future reports

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Decision

That the report be noted.

3. FORMAL FUNDING VALUATION INITIAL RESULTS 2016

[Officer Contact: Patrick Towey, Head of Specialist Accounting
(Telephone 0199 555148)]

- 3.1 The Pensions Committee considered a report setting out the initial results of the formal valuation of the Hertfordshire Pensions Fund (HPF) at 31 March 2016 recommending the approach, review, consultation and final approval of the Funding Strategy Statement (FSS).
- 3.2 In compliance with Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations), Hymans Robertson undertook a valuation of the whole Fund at 31 March 2016 and the detail of these results was presented in Annex A to the report.
- 3.3 Members attention was drawn to the triennial valuation of 31 March 2016 showing a whole Fund increase in value from 82% to 91%. Individual employer results and contribution rates would be issued from November 2016. There had been a reduction in the reported Fund deficit from £617million to £336million. The actuarial investment experience for Hertfordshire Fund was better than the assumption set by the actuary for investment out performance. This resulted in a 7.1% positive contribution for the Fund. The fall in gilt yields had a negative impact on the Fund by increasing the value of liabilities. Actual inflation experienced during the period was better than assumed inflation giving rise to a positive contribution to the Fund. The Membership experience was also positive with fewer ill health and early retirements along with fewer salary and benefits increases than assumed. The number of pensions in payment ceasing was less than anticipated which increased liability on the fund. In summary the liability position had increased but the assets had increased at a faster rate; as illustrated in the table at paragraph 4.6 of the report.
- 3.4 Based on common assumptions issued by the Government Actuary Department (GAD) the funding level of the Hertfordshire Fund was at 107%; which was in the top 5 of funds reported to the Scheme Advisory Board (SAB) thus far.
- 3.5 Members were also advised of a review of the Funding Strategy Statement (FSS) (Appendix B) which would take effect from 31 March 2017. Members heard that the FSS was the framework that the Fund's actuary works within to carry out triennial valuations to set Employers Contributions. It also provided recommendations to the Administering Authority for other funding decisions.
- 3.6 As part of the review process the FSS would be considered by the Pensions Board at its next meeting, subsequent to which it would be circulated to all scheme employers for a short consultation period. Following this review and consultation, the revised FSS would be

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presented to the February meeting of the Pensions Committee for approval.

Services to note

3.7 The success of the Fund as reported was welcomed as good news by the Committee and appreciation of the good work of all involved was expressed. The prudent nature of the actuarial assumptions was noted.

3.8 Referring to Fund Membership Experience at 4.6 of the report, it was noted that, although there had been a very good result, clarification was needed as to checks and balances against a more negative outcome. Committee Members were advised that the Investment Strategy and asset allocations were regularly reviewed. Indicators currently suggested that interest rates were going to remain low and gilt yields may increase. This would be monitored and officers would report to the Committee should any asset movement be significant.

3.10 Clarification was sought as to whether Government may become more interventionist in Hertfordshire Fund allocations. It was noted that it was not possible to predict future Government strategy but that the upcoming Budget Statement would be carefully reviewed.

3.11 An enquiry was made regarding what happened to any surplus if the Fund were to generate one, and Members were advised that, in this event, the regulations did not permit the refund of a surplus but a continuing and increasing surplus could give rise to reduced contributions for certain employers. .

Decision

3.12 The Committee noted:-

- (i) the initial results of the 2016 formal Funding valuation; and
- (i) 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.

Patrick Towey/
Democratic Services to note

4. INVESTMENT STRATEGY REVIEW

[Officer Contact: Patrick Towey, Head of Specialist Accounting
(Telephone 01992 5551480)]

4.1 A report was presented informing the Committee of the process and timetable for the review of the Fund's Investment Strategy. In accordance with Regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations (1 November 2016), an Administering Authority (AA) must produce and publish a new investment strategy statement (ISS) by 1st April 2017. This ISS would replace and largely replicate the current Statement of

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Investment Principles (SIP). Details of the required areas of action were noted. These included a requirement to invest money in a wide range of investments, the Authority's approach to pooling investments, and the Authority's policy regarding the stewardship of assets, including the exercise of voting rights. (The full list is set out at paragraph 2.2 of the report).

4.2 Referring to the overview at Section 4 at page 2 of the report, key elements were highlighted to the Members. Officers advised that the new regulations transferred investment decisions and their consideration more fully to the AA that there was a more relaxed regulatory framework with less central prescription and limits for asset allocation and pooling, and that, additionally, there was a new safeguard to ensure that AA's acted appropriately; the Secretary of State had power to intervene and issue direction if satisfied of failure to act in accordance with the guidance.

4.3 Fund officers would work with Mercer to review the current investment strategy in light of the new investment regulations and taking into consideration the outcome of the Fund valuation results. A draft revised strategy would be presented to the Committee in February 2017 for consideration. Subject to any further amendments a final investment strategy would be presented to the Pension Committee on 31 March 2017 for approval. As part of the review and approval process, the draft strategy would also be considered by the LGPS Pension Board at its February 2017 meeting

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4.4 **Decisions**

The Pensions Committee:

- (i) noted the content of the report;
- (ii) agreed the plan for the review of the Fund's investment strategy; and
- (iii) agreed that a joint Member/Officer Working Group to assist in the preparation of a revised Investment Strategy be established.

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5. **PENSION FUND ASSET POOLING - ACCESS UPDATE**

[Officer Contact: Patrick Towey, Head of Specialist Accounting, Telephone 01992 555148]

5.1 Members were presented with a report providing an update on recent ACCESS pool developments and the ACCESS Chairmen engagement meeting that took place on 13 October 2016.

5.2 Officers advised that the ACCESS pool proposal for the pooling of assets was submitted to Government by the deadline date of 15 July 2016. None of the pools had received any formal decision from the

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Government. The Minister was keen to meet elected Members; a deputation from the ACCESS pool were scheduled to meet the Minister on 29 November 2016 and an officer of the Hertfordshire Fund would be present at this meeting.

5.3 The Committee was advised that the development of the governance of the ACCESS pool via a Joint Governance Committee (JGC) to implement pooling required an Inter-Authority Agreement. This would need to be put in place by the end of March 2017 and required sign-off from each Administering Authority.

5.4 The Committee was further advised that Legal Officers representing the Funds in the ACCESS pool had been working to establish an inter-authority agreement. Eversheds had been appointed to provide the first initial draft for discussion and agreement by Fund legal officers prior to the next ACCESS Chairmen meeting in December 2016. The draft agreement would be put before the Committee at its meeting on the 24 February 2017, prior to being presented to full Council for approval at its meeting on 21 March 2017.

5.5 Members heard that The ACCESS Chairmen meeting on 13 October considered the establishment of an independent non-voting Chairman to sit on the JGC. The proposal was rejected by 9 votes to 2. Hertfordshire and one other Authority were in favour of an independent Chairman who would provide expertise and continuity during member changes; officers would continue to support the Authority's preference for an independent Chairman.

5.6 Members also noted that ACCESS officers would hold engagement days with potential operators in November 2016 to understand the depth of the operator marketplace and to inform the specification for the OJEU procurement. The Hertfordshire Fund was leading on the procurement of a legal advisor to assist the ACCESS pool with specific advice on the procurement of the operator and the implementation of tax efficient sub-funds. The legal advisor would also be asked to provide advice on new or replacement contracts with investment managers and transition plans for the phased transfer of assets to the pool. The procurement process would take up to 8 weeks.

Decision

5.7 That the report be noted.

6. EXCLUSION OF PRESS AND PUBLIC

Decision

That under Section 100(A)(4) of the Local Government Act 1972, the

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press and public be excluded from the meeting for the following items of business on the grounds that they involve 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

PART II ('CLOSED') AGENDA

1 ANNUAL INVESTMENT MANAGER COSTS REPORT

Decision

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

**2 PENSION FUND - FUNDING & INVESTMENT REPORT
(FORMERLY PERFORMANCE REPORT) AS AT 31 MARCH 2016**

Decision

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

3 SWITCHING GLOBAL EQUITY MANAGERS

Decision

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

**KATHRYN PETTITT
CHIEF LEGAL OFFICER**

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