

Minutes



To: All Members of the Pensions Committee

From: Legal, Democratic & Statutory Services
Ask for: Stephanie Tarrant
Ext: 25481

PENSIONS COMMITTEE 7 MARCH 2017

ATTENDANCE

MEMBERS OF THE PENSIONS COMMITTEE

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

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

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 7 March 2017 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.

PART I ('OPEN') BUSINESS

1. MINUTES

- 1.1 Minutes (Part I and II) of the meeting of the Pensions Committee held on 18 November 2016 were confirmed as a correct record and signed by the Chairman.

2. RISK AND PERFORMANCE

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

- 2.1 Members reviewed a report which provided the quarterly update on Risk and Performance for the Pension Fund for the period 1 October to 31 December 2016.

ACTION

- 2.2 Members heard that the Local Government Pension Scheme (LGPS) Board was expecting two additional papers at the March 2017 meeting, one detailing the annual activity of the Pensions Board and the other reviewing the LGPS a year on from its set up in September 2015.
- 2.3 The Fire Pension Board had recently met in February 2017, following two meetings being postponed due to being inquorate. New membership was now in place with meetings to be ongoing.
- 2.4 Members noted that the risk register highlighted the four main risks, of which there had not been any major changes to.
- 2.5 It was acknowledged that employers had been rated, as shown in table 3 and given a score to provide a better overview of their risk. Members heard that action plans were being looked at to reduce the number of employers in the red risk category.
- 2.6 Members queried if there was any common reason for employers being in the red risk category and heard that the main reason was that they did not have an admission agreement in place, which automatically put them in the red category. Members heard that an agreement should ideally be in place within six weeks of joining the fund but it was noted that information, such as the final transferring staff list, will not be available until the point of transfer – only once this information is available can it be sent to the actuary to begin calculations around assets, risks and contribution rates. It was noted that the longest an employer had been without an agreement had been ongoing for a number of years and had fallen into legal dispute. Members heard that there was now an external legal specialist resource commissioned from Squire Patton Boggs LLP and that any outstanding cases were being targeted to be resolved and closed. It was acknowledged that this area was a strong focus of the Pensions Board.
- 2.7 Members expressed concern that these cases could not be resolved by the internal legal team and it was noted that Squire Patton Boggs had not been brought in only to deal with admissions but as they were pension specialists in this area, they were able to help manage these cases and reduce the volume going forward. A report on the progress of these cases would be prepared for a future meeting.
- 2.8 Members heard that the Administering Authority performance monitor noted that the Shared Internal Audit Service (SIAS) audit of Pensions Administration had concluded, and that a final report was expected in quarter 4. Timetables had been put in place for the 2016/17 external audit of the Pension Fund's Annual Accounts and would comply with the early closure of Hertfordshire County Councils overall accounts.
- 2.9 It was noted that late payment issues were dealt with by the Pensions

Head of
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Board but Members acknowledged that employers were being actively chased and that there had been a reduction since quarter 2.

Decision

2.10 The Pensions Committee noted the content of the report.

3. INVESTMENT STRATEGY REVIEW

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

3.1 Members heard that the draft investment strategy would be reviewed at the next Pensions Committee meeting on 31 March 2017. It was noted that as an action of the 18 November 2016 meeting a cross party working group was formed to review the strategy based on new guidance from the Department for Communities & Local Government (DCLG). The working group had considered the current position alongside Environmental, Social & Governance (ESG) requirements.

3.2 In response to a Member question on how the diversification risk was being quantified, it was noted that the management of the assets of the pension fund was an intrinsic part of the way the strategy would be reviewed going forward. Members heard that the measured risk (per year) was compared to expected rates of return

3.3 Members queried the term 'strawman' and heard that these were hypotheses used to consider the merits of a variety of different approaches.

Decision

3.4 The Pensions Committee noted the content of the report.

4. REVIEW OF VOTING POLICY

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

4.1 The Committee received a report with regards to the review of Voting Policy which was an annual paper and provided an overview of how the Investment Managers had voted. It was noted that the report was deferred from the November 2016 meeting.

4.2 Members clarified how an investment manager would manage voting if they represented a number of different clients and heard that with regards to the County Councils fund, managers voted on the block of shares that they owned. It was noted that some funds do not use third party proxy providers and gave discretion to managers to vote.

4.3 Members queried if it was common practice for Local Authorities to be involved in voting and it was advised that fund managers should vote

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via the proxy in accordance with guidance. It was noted that on one occasion JP Morgan failed to vote in accordance with guidance but it did not affect the final decision as the resolution was passed by a majority vote. Members discussed whether the managers could have full responsibility for the vote and it noted that this could be considered. The Chairman requested that the cross party working group considered this and to report back at the 31 March 2017 meeting.

Decisions

4.4 The Pensions Committee noted the content of the report.

5. FUNDING STRATEGY STATEMENT & CONSULTATION RESPONSE

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

5.1 The Pensions Committee was provided with a report that detailed the results of the consultation undertaken on the 2016 Funding Strategy Statement (FSS) for the Hertfordshire Pension Fund.

5.2 Members heard that the draft strategy was refreshed every three years and was presented to the Pensions Committee in November 2016 and the Pensions Board in December 2016, followed by an 8 week consultation period, with all fund employers, which closed on 20 January 2017.

5.3 Responses from employers were collated and Members noted that there had not been any significant changes required from employer's feedback.

5.4 Members heard that in terms of life expectancy, assumptions are set at an employer level, based on the characteristics of that employer's individual membership – however this fact was made clearer in the final version of the FSS.

Decision

5.5 The Pensions Committee reviewed and approved the updated Funding Strategy Statement

6. TREASURY MANAGEMENT STRATEGY FOR PENSION FUND

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

6.1 Members received a report detailing the 2017/18 Treasury Management Strategy for the investment of Pension Fund cash held by the Authority.

6.2 It was noted that there had been very little update to the strategy with

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the main changes highlighted in section 4 of the report.

- 6.3 The slim possibility of the UK entering into recession in 2017/18 was acknowledged and the need to look at investment security in the event that there was a negative interest rate had been considered.
- 6.4 Members heard that MiFID II proposals had the potential risk that all Local Authorities could be categorised as retail investors and therefore the Council may not be able to invest in certain asset classes that it does now. It was advised that the Financial Conduct Authority (FCA) were interested on the impact on LGPS funds as they believed that most pooled funds would be able to act up and become a professional investors. This was being disputed and a working group of LGPS officers from across the LGPS was liaising with the FCA so that the FCA could get a better understanding of how LGPS funds invest money with investment managers. The FCA is an independent body from government and was introducing these changes on the back of EU legislation.
- 6.5 Members heard that this area would be reported on again when further details were available and consequences known. It was noted that this should be resolved but at the moment remained a risk.
- 6.6 In response to a Member question, on if MiFID II would apply post Brexit, it was advised that the government were looking at applying the changes and that some of the changes needed to be made to be complaint with the financial market worldwide.
- 6.7 Members queried if it was a case of training required in order to be able to act up but were advised that the criteria are being revised by the FCA to better reflect the way that LGPS funds operate. Members heard that the FCA was looking at how external consultants were being used to support funds with investment decisions.
- 6.8 Members discussed the cash figure being held at £35 million and noted that it was not the strategic 1% allocation of the fund as noted in the report. It was noted that this was debated for 2016/2017 and that as the returns on cash was at a historic low, it was difficult to justify keeping £40 million in cash when it was being used to pay for benefits. Members heard that the £35 million cap would be sufficient for this year and was based on end of year figures. The report was to be updated to provide future clarity.

Head of
Specialist
Accounting

Finance
Manager

Decision

- 6.9 The Pensions Committee approved the proposed 2017/18 Treasury Management Strategy for lending Pension Fund cash.

7. GOVERNANCE: LGPS INVESTMENT POOLING INTER AUTHORITY

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AGREEMENT

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

- 7.1 Members reviewed a report on the current position of the ACCESS Pension Pool and the proposed arrangements for setting up a joint committee with the ACCESS Authorities and for an Inter Authority Agreement with the ACCESS Authorities.
- 7.2 It was advised that Hertfordshire were one of eleven Authorities' that established the ACCESS pool March 2016. The ACCESS Pool was to be governed by a Joint Committee made up of one elected Councillor chosen by each authority from their pension committee.
- 7.3 Members were given an overview of the details of the agreement and heard that Squire Patton Boggs, who were external legal advisors to the Hertfordshire Fund, had been appointed as the legal procurement advisors to ACCESS. Members heard that the costs of the Joint Committee would be shared equally across the eleven ACCESS funds and that the agreement covered clauses around withdrawal and termination from the ACCESS Pool. Members heard that the delivery of the procurement had to be in place by April 2018 and that benefits of being in the pool were already being seen. The projected fee saving was £30 million per year with Allianz already having agreed to cut their cost fee from 0.35% to 0.25% on the first £250 million of assets.
- 7.4 Members clarified the financial implications of the ACCESS pool and it was advised that the set up costs and costs to the fund as well as any new savings would be attributed to the fund.
- 7.5 It was discussed whether it was an ambition to have an independent Chairman of the Joint Committee but it was noted that due to the way the agreement had been set up and was structured it meant that the Chairman could not be independent. Members expressed concern of the size of fund and the management of it with a part-time Chairman. It was considered that the Committee would meet more frequently than the required four times a year and that the Chairman would be kept up to date with the scale of the work from the Officers managing the Committee.
- 7.6 Members discussed what training was being set up and noted that voluntary training may assist with MiFiD issues. Members heard that other pools may have underestimated the degree of Financial Conduct Authority compliance and the costs involved in creating their own structures as opposed to renting an operator. It was noted that Chairman had attended meetings about the ACCESS pool and that this interaction would continue once the pool was up and running. Members noted that training down the line would be reassuring alongside legal advice.

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- 7.7 Members heard that investment decisions would continue to rest with the Pension Committee and that this would not change within the ACCESS structure and that it was about achieving the best possible price for chosen assets.
- 7.8 Members noted that this item would be debated at County Council.
- 7.9 Members noted the recommendation 3.1 would be amended to include both the Chairman and Vice Chairman.

Decision

- 7.10 The Committee recommended to County Council that:
 - 3.1 the Director of Resources in consultation with the Chairman/Vice Chairman of the Pensions Committee is delegated the authority to finalise and agree the terms of the Inter Authority Agreement with the authorities in the ACCESS Pool as set out in the Report
 - 3.2 the Council agrees to set up a Joint Governance Committee as set out in the Report with the authorities in the ACCESS Pool with effect from the date of completion of the Inter Authority Agreement and to appoint one member of the Council to the Joint Governance Committee
 - 3.3 the Council delegates the functions set out in Appendix 2 to the Report to the Joint Committee with effect from the date of completion of the Inter Authority Agreement
 - 3.4 The Chief Legal Officer is authorised to make such amendments as are necessary to the Constitution to reflect the decisions mentioned in 3.1 to 3.3 above

EXCLUSION OF PRESS AND PUBLIC

Decision

That under Section 100(A)(4) of the Local Government Act 1972, the 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. PENSION FUND – FUNDING AND INVESTMENT REPORT

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(Formerly PERFORMANCE REPORT) AS AT 31 DECEMBER 2016

Decision

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

**KATHRYN PETTITT
CHIEF LEGAL OFFICER**

CHAIRMAN _____

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