

Minutes



To: All Members of the Pensions Committee

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

PENSIONS COMMITTEE 28 FEBRUARY 2018

ATTENDANCE

MEMBERS OF THE PENSIONS COMMITTEE

S J Boulton, M A Eames-Petersen (substituted for J G L King), J M Graham, C M Hayward, A J S Mitchell, R G Parker, S Quilty, R Sangster, J D Williams (Chairman)

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

K Ayling, J Lloyd

Upon consideration of the agenda for the Pensions Committee meeting on 28 February 2018 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 29 November 2017 were confirmed as a correct record and signed by the Chairman.

2. GENERAL DATA PROTECTION REGULATIONS (GDPR) [Officer Contact: James Ahlberg, Information Governance Manager, Local Pensions Partnership]

- 2.1 Members received a report and presentation which detailed the General Data Protection Regulation (GDPR), which will come into force on 25th May 2018 to replace the current EU Data Protection Directive 95/46/EC and the UK Data Protection Act 1998. Members heard that once the UK left the EU there would be a new data protection bill that would be aligned to the EU Directive along with additional localised clauses.

ACTION

- 2.2 Members commented on the fines in relation to data breaches and it was advised that whilst it was possible to be fined for transferring data outside of the EU, following correct procedures and due diligence would minimise the chances of facing a fine.
- 2.3 The Committee noted that any data breaches would need to be reported to the Information Commissioner's Office within 72 hours of being made aware of it and it was noted than any concerns should be discussed with the data protection team.
- 2.4 Members were given an update on the Local Pension Partnership's progress with regards to the GDPR. Members heard that a gap analysis had been completed and that a data protection officer had been appointed. All relevant policies and procedures had been identified and were being updated, along with a new process for reporting breaches and a detailed staff training plan.
- 2.5 Members were assured that that a lot of work had been undertaken within the County Council and that in many areas of the Council's work, permission did not need to be sought to hold information due to the Council's statutory role. It was advised that the data protection team would be moving line management to work under the Chief Legal Officer and noted that Fund Officers would be working closely with the data protection team to ensure consistency and compliance.
- 2.6 In response to a Member question regarding Fund Members that no longer wanted their details held, it was advised that Fund Members had the right to be forgotten if they were deferred or frozen, however legally Fund Members details were required to be held to process pension benefits. Members were advised that any data in relation to any Members that had transferred out of the Fund would be retained and therefore still be available if challenged at a later date.
- 2.7 In response to a Member question regarding responsibility for data breaches once service providers had confirmed that they were complying with GDPR, it was advised that the Information Commissioner's Office were keen for data protection teams to follow up quarterly/yearly with providers to ensure that they remained compliant.
- 2.8 Members queried whether there was approved technology as part of GDPR and it was advised that companies such as Microsoft had tested themselves against GDPR standards and rated their technology either green, amber or red. It was noted that if there was an issue with a USB and it had been encrypted then it would not be classified as a breach, however if it was not encrypted then it would be considered a breach.

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Decision

2.9 The Pensions Committee noted the content of the report.

3. PENSIONS COMMITTEE BUSINESS PLAN FOR 2018-19

[Officer Contact: Patrick Towey, Head of Finance (Pensions and Treasury), Telephone: 01992 555148]

3.1 Members received a report which detailed the proposed agenda items for the Committee to consider in 2018/19, alongside the role and responsibilities of the Committee.

3.2 The Committee discussed training requirements for Members and it was suggested that it would be useful to have an online tool kit for Members to be able to complete online training at their own pace. Members were informed that an online tool kit would not be sufficient to replace the high level of detail discussed at training sessions; however there was an introduction tool kit designed by the Pensions Regulator. Information on the toolkit available will be shared with the Committee at the July 2018 meeting.

3.3 It was noted that the working group would continue to meet to undertake background work in relation to policy changes and decisions.

Decision

3.4 The Committee noted the content of the report and commented, as detailed above.

4. RISK AND PERFORMANCE

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

4.1 The Committee reviewed a report which detailed the quarterly update on Risk and Performance for the Pension Fund for the period 1 October to 30 December 2017.

4.2 Members noted the updates in the risk register (section 4 of the report) and acknowledged the significant transition work that had been undertaken to rebalance the portfolio in line with the strategy.

4.3 The Committee noted that HR had identified an issue with the Fire Annual Benefit Statements and a report would be presented to the Fire Pension Board in March 2018 to explain the impact of the errors in the ABS and the mitigating controls that would be put in place to prevent it happening in the future.

Patrick Towey,
Head of Finance
(Pensions and
Treasury),

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- 4.4 Members noted that there had not been much progress with the backlog of outstanding admission agreements and were informed that the Pensions Board were taking an active role in monitoring the situation and measures to be introduced to tackle the outstanding cases. Members heard that discussions were ongoing with internal/external legal advisers on introducing an emergency contribution rate for those employers with outstanding agreements, amongst other proposals.
- 4.5 It was advised that the Local Pension Partnership had been working under the oversight of the board and that the backlog of Defined Benefit Cases had been cleared as of February 2018. It was noted that this would take some time to show on the quarterly reports.
- 4.6 In response to a Member question on whether the de-risking process had taken place before or after the recent market correction, it was advised that since the decision to de-risk had been made in November 2017, Officers and Mercer had been working alongside all parties required to make the transition. It was advised that most transitions had been made prior to the market correction with one move ongoing. Members noted that prior to the market correction performance returns were higher than expected and that de-risking allowed those returns to be banked despite the correction.
- 4.7 Members noted that index linked gilts fell by similar levels to UK equity markets and it was advised that the overall impact to the Fund would be generally neutral and hence why the de-risking exercise continued during the period of the market correction.
- 4.8 In response to a Member question, it was noted that the market correction would affect the Fund's overall position, however it was noted that the Fund should not see a huge difference.

Decision

- 4.9 The Pensions Committee noted the content of the report.

5. ACCOUNTING ISSUE - EMPLOYER JULY & AUGUST 2017 FRS102 REPORTS

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

- 5.1 Members reviewed a report which detailed the misstatement in investment returns which led to the re-issue of FRS102 reports to a number of employers in December 2017 and the additional costs incurred by the Pension Fund.
- 5.2 The Committee was advised that investment return figures submitted to the Fund's Actuary (Hymans Robertson) had been misstated which affected the financial accounting data produced for employers with

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July and August 2017 financial year end dates. 102 employers were affected in total. Members noted paragraph 4.4 of the report which detailed the effect on reported asset values.

- 5.3 Members heard that in order to prevent this happening again, the control process for submitting data to the Actuary had been overhauled. The Committee acknowledged that the error had been rectified swiftly and transparently and that enhanced controls had been put in place, as detailed in section 8 of the report, to mitigate these errors happening again in the future.
- 5.4 Members were informed that the costs incurred as a result of this error would be covered by the Fund and charged to the administering authority's liability. Reimbursement was offered to employers for any reasonable additional costs incurred by the employer.
- 5.5 In response to a Member question on how costs of errors would be managed as part of ACCESS, Members were advised that this type of error would not occur within ACCESS. It was however noted that if an error occurred as a result of an instruction implemented late, then a mechanism would need to be developed to determine how the costs would be allocated.
- 5.6 Members discussed the seriousness of the error and it was advised that error was accounting based in nature, and required rectification due to the material change required on financial statements.

Decision

- 5.7 The Pensions Committee noted the content of the report.

6. 2018/19 TREASURY MANAGEMENT STRATEGY FOR PENSION FUND

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

- 6.1 Members reviewed a report which proposed the 2018/19 Treasury Management Strategy for the investment of Pension Fund cash held by the Administering Authority.
- 6.2 Members noted that it was proposed to increase the cap for locally held funds from £35 million to £42 million, in line with 1% Fund assets.
- 6.3 Liquid funds were held to manage payments of membership benefits and cash drawdowns for the Fund's property and private equity Investment Managers.
- 6.4 In response to a Members question, it was advised that whilst there was not a direct correlation between the amount of money received

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(via contributions), paid out (in benefits) and the Fund's overall assets, it did move in the same direction.

Decision

- 6.5
- The Pension Committee approved the proposed 2018/19 Treasury Management Strategy for lending Pension Fund cash, as set out in Appendix A to the report.
 - The Pension Committee approved the increase of the cap for locally held funds to £42m, in line with 1% of Fund assets.

7. INTRODUCTION TO SECURITIES LENDING

- 7.1 Members reviewed a report which provided an introduction to securities lending. Members heard that securities lending was already taking place for the Fund, however once assets were moved to the ACCESS pool the scale of lending would be much larger.
- 7.2 Members were advised that securities lending was a general market practice and involved the borrowing of assets from asset holders by parties who did not own those assets such as banks and hedge funds. A contract agreement would determine the length of the borrowing and the fee, along with collateral in case the securities were not returned. The collateral was always at least equal to the current value of the assets borrowed. Members noted that whilst assets were on loan, voting rights would stand with the borrower along with dividend payments; however borrowers would usually return any dividends.
- 7.3 Members noted that securities lending was a way for Pension Fund's to earn extra income whilst holding long-term assets. It was advised that to mitigate risks, trading would only take place with reputable banks and that the collateral agreed would be more than 100% of the assets borrowed back in return.
- 7.4 In response to a Member question, it was confirmed that once an asset had been loaned for a period of time, it could be requested back early if required. It was also noted that it was unlikely for the borrower to be able to lend the assets further and that the clauses of the borrowing would be written into any agreement.
- 7.5 Members noted that the Hertfordshire Pension Fund made £230,000 through securities lending last year, operating on a very restricted programme. It was advised that some Funds made over £1 million a year, by having a more expansive lending programme of securities.
- 7.6 Members were informed that the ACCESS Pool would have a stock lending and a non-stock lending sub fund and therefore it was important for Members to understand the concept of stock lending and be reassured that the scheme was managed by a regulatory

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body on the Fund's behalf.

- 7.7 In response to a Member question regarding the Fund's reputation risk, it was advised that there was no opportunity to connect this scheme back to the Fund. Members were informed that passive managers undertook stock lending and this allowed passive managers to add an additional return to the benchmark.
- 7.8 In response to a Member question, it was confirmed that there was not believed to have been any borrowers that had defaulted on their stock lending agreements. Members noted that the scheme had been successful on a small scale for the Fund.
- 7.9 Members were keen for this area to be considered further by the Pensions Committee Working Group.

Decision

- 7.10 The Pensions Committee noted the content of the report.

EXCLUSION OF PRESS AND PUBLIC

The Committee agreed to move into Part II ('closed' session').

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. ACCESS UPDATE

Decision

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

2. PENSION FUND – FUNDING AND INVESTMENT REPORT (FORMERLY PERFORMANCE REPORT) AS AT 31 DECEMBER 2017

Decision

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

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**3. REAL ASSET PORTFOLIO NEXT STEPS - INFRASTRUCTURE
DEBT MANAGER SELECTION**

Decision

- 3.1 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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