

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

PENSION BOARD LGPS 19 MARCH 2019

ATTENDANCE

MEMBERS OF THE BOARD

Employer Representatives: D Ashley, G Clay, D Graham (Vice Chairman), P Neville
Member Representatives: M Collier (Chairman), J Digby, G Johnson, K O'Daly,

STANDING SUBSTITUTE MEMBERS

Employer Representatives: J Anderton, M Green, J Hurley
Member Representatives: D Gooden, T Perkins

Upon consideration of the agenda for the Pension Board LGPS meeting on 19 March 2019 as circulated, copy annexed, conclusions were reached and are recorded below:

Announcements:

- (i) The chairman announced that G Clay, J Digby, M Green, J Hurley and P Neville had tendered their resignation from the Board as of the end of the meeting and were not seeking re-election. The Chairman thanked the Members for their contribution to the Board;
- (ii) The Board were advised that a review of the Pension Fund Investment Strategy would be undertaken in 2019;
- (iii) The Democratic Services Officer was requested to ascertain whether there was a dispensation for active, deferred or retired members of the LGPS Pension Scheme to serve on the Board.

Declarations of interest:

D Ashley, M Collier, J Digby, D Graham, G Johnson, K O'Daly declared a pecuniary interest as they were all active or retired members of the LGPS; they remained in the room and participated in the vote;

PART I ('OPEN') BUSINESS

1. The Minutes (Part I) of the LGPS Pension Board meeting held on 10 December 2018 were confirmed as a correct record and signed by the Chairman.

2. PENSION FUND GOVERNANCE AND RISK MANAGEMENT REPORT

[Contact: James Kidd, Senior Accountant (Tel: 01992 555706;
Ann Namubiru, Senior Pension Governance Officer
(Tel: 01992 588625)]

2.1 The Board received the quarterly report on governance and risk management of the Pension Fund for 1 October to 31 December 2018.

2.2 Members heard that 2 new employees had been recruited to reduce the backlog of red risk employers with outstanding Admission Agreements (AAs). Officers clarified that as part of the process to develop a Fund wide policy solution to this issue a working group, scheduled for April 2019 and comprising Pensions Committee members, the scheme actuary and lawyers, would consider the legal advice of the external lawyers in relation to the two options available. The group would also consider: the issue of signing off the AAs, a process proceeded by complex negotiations between employer and contractor to reach agreement on contribution rates; and the findings from the lengthy process of examining the different practices of other LGPSs. Any resultant policy would come before the Board for review, comments and amendment if necessary.

2.3 The Board requested that in future Appendix D (Outstanding Admission Agreement Action Plan) should include a target completion date.

J Kidd;
A Namubiru

2.4 Noting the £3.5m in net surplus assets assigned to the red risk category employers. Members requested that gross figures were also included in the table analysing scheme employers by risk category.

J Kidd;
A Namubiru

2.5 Members requested that the 1 year plus category is broken down further to show the number of AAs which have remained outstanding for more than 2 years, more than 3 years etc.

J Kidd;
A Namubiru

2.6 The Board revisited the issue of employers without indemnity. Officers clarified that where this was due to lack of a bond and, in the event of a default, the liability would revert to the ceding employer as the liability remained with the employer that had made the original decision to outsource the contract. Having a bond in place or a guarantor was now a requirement of joining the Fund and in TUPE situations the County Council could refuse contractor entry to the

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scheme if the covenant was not met satisfactorily, the ceding authority then having to provide surety arrangements.

- 2.7 The Board observed that unless the ceding employer was a guarantor it was misleading to describe employers in the red risk category with outstanding AAs as being 'in surplus' when they were 'in credit on an ongoing basis'.
- 2.8 Officers clarified that all employers in all the risk categories were monitored including those likely to move into red or amber risk; the LPP's governance officer scanned local and national press for adverse publicity and where this was identified the employer was brought in to clarify their proposed remedial actions. The 2 new employees in the Pension team also monitored the scheme employers and ceding employers to increase engagement in the Fund.
- 2.9 During discussion of scheme employer funding levels and risk levels, Members heard that those in the green level and with a funding level below 80% were generally tax raising bodies. District/borough councils were long term employers and had a long history in the Fund.
- 2.10 Officers emphasised that they were giving greater focus to communication with the schools and academies as they are the largest group of employers in the fund.
- 2.11 In relation to the risk of scheme employers defaulting on meeting their obligations to the Pension Fund and LGPS J Ahlberg confirmed that an LPP training event on returns required by the Fund was scheduled later in the week.

Conclusion:

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

3. LOCAL PENSIONS PARTNERSHIP LOCAL GOVERNMENT PENSION FUND ADMINISTRATION REPORT

- 3.1 [Contact: John Crowhurst, Deputy Pensions Director (LPP)]
- 3.2 Members received the quarter three 2018/19 update from the Local Pensions Partnership (LPP).
- 3.3 The Board noted that the post go-live backlog had been cleared and that LPP were focussed on working in advance of contractual due dates. Members welcomed the update that overall Q3 performance against SLA had now risen to 98.7% and the Contact Centre real time average call wait time for the Hertfordshire LGPS was now 1m 21s.

- 3.4 Any calls to the Contact Centre where the wait time exceeded 10 minutes were referred to the operations team and then to case workers; less than 5% were now being lost. More staff had now been employed so it was possible to consider giving callers a queue number and the wait time; T Mutter agreed to report back on this to the Board.
- 3.5 To reduce service complaints a communications drive had been instigated e.g.: for the 17 complaints due to timeliness and delays, when chasing employers for information the affected member would now receive written confirmation that their case was on the system and the reason for the delay. In relation to the other type of complaint:
- Members were now routinely asked to request return of certified copies of death certificates;
 - Response letters to requests for a transfer value within 1 year of retirement now clarified that this was against regulations and the member was provided with their retirement options.
- 3.6 Analysis had shown that the number of complaints had slightly reduced but the detail input with regards to new service complaints could be improved and this was being reviewed with the staff who input the information; in some instances LPP were apologising for issues arising from complying with regulations e.g.: provision of transfer values within 1 year of retirement; refunds were not permissible within 1 month and 1 day.
- 3.7 J Ahlberg clarified that 395 referred to the number of death cases completed and not the number of pension member deaths in the quarter. It was high due to the annual winter rise in deaths and clearing of the backlog from the previous 2 quarters.
- 3.8 LPP were registered with the National Fraud Initiative and with Tell Us Once, from which they received matches on pension fund members' deaths through the month. However the latter did not cover overseas members, young people leaving school, the over 95 year olds and those who used a C/O address and hence the necessity for these members to complete an annual life certificate.
- 3.9 The Board noted that the age cap for joining the pension scheme was 74 years old.
- 3.10 LPP highlighted that the 26/27% subscription to the online pension service was good in comparison to other schemes. The new look system was easier to use and provided access to nominations, calculations of pension estimates if pension taken at 55 years, etc. To encourage uptake, communications about 'My Pension Online - Member Self Service' were included with the statutory notifications e.g. P60's. LPP also had pension members' email addresses so a

T Mutter

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trial was underway to encourage by email those who had not already done so to sign up to the online member portal. Haywards were also being pressured to develop an app.

Conclusion:

3.11 The Board noted the contents of the report

4. 2019/20 TREASURY MANAGEMENT STRATEGY FOR PENSION FUND

[Contact: Rob Thurlow, Senior Accountant (Tel: 01992 555061)]

4.1 The Board considered the 2019/20 Treasury Management Strategy (TMS) for the investment of Pension Fund cash held by the Administering Authority.

4.2 Members heard that the only change to the strategy since 2018/19 was to increase the Fund's 1% of total pension fund assets benchmark allocation from £42m to £45m in line with the Fund assets of £4.499bn as reported in the most recent set of audited accounts at 31 March 2018.

4.3 The Fund's TMS was generally more prudent than the County Council's to reflect the lower balances held by the Pension Fund, the latter being held for the short term to mainly provide liquidity to enable payment of benefits.

Conclusions

4.4 The Board noted the content of the report.

5. LGPS PENSION BOARD CONSTITUTION MEMBERSHIP APPOINTMENT REVIEW

[Contact: Matthew Nendick, Finance Manager (Tel: 01992 555683)]

5.1 The Board considered a report which provided an update on the recent review of the Pension Board Constitution and the resulting recommendations of changes taken to and agreed at February 2019 Pensions Committee.

5.2 Members' attention was drawn to a typographical error in section 3 of the report (recommendations), where '*These recommendations will be taken to full Council in May 2019 for approval*' should have read '*These recommendations will be taken to full Council on **26 March** 2019 for approval*'.

5.3 Members noted the changes to the Pension Board constitution for the purpose of preserving knowledge, experience and business continuity, as previously discussed and agreed with the Board and,

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the additional proposal that the terms of office of the Chairman and Vice-Chairman were increased to 2 years to allow them sufficient time to become accustomed to their roles and responsibilities.

5.4 The Board heard that, subject to approval of the recommendations by full Council, excepting the one Member Board Member (MBM) and two substitute MBMs recruited in December 2018, all Board Members' current term of office would end on 31 March 2019 and they would be reappointed from 1 April 2019 on a rotational cycle. Transitional arrangements would be implemented to initiate the rotation for the new Board Members from 1 April 2019 and thereafter any Board Members appointed from 1 April 2021 or 1 April 2023 would be appointed for a full 4 year term.

5.5 To Members' questions officers clarified that:

- The Board was a scrutiny/ advisory body and hence lacked the ability to make decisions, including on its own terms of reference. In view of this any changes required agreement by the Pensions Committee;
- The timing of approval from full Council dovetailed with the end of the 4 year term of the current Board Members and of the need to appoint new Board Members.

5.6 Members suggested a further amendment of the Pension Board constitution:
to avoid trapping Members in to the 4 year civic cycle, in the event of a vacancy on the board the new member's term of appointment should be for 4 years from the date of their appointment.
[Subsequent to the meeting, the Chief Legal Officer directed that this suggestion had the potential to undermine the 4 year rotational cycle and hence retention of experience, knowledge and business continuity, with the added concern that membership tracking would be more complex. It would also have to be agreed again by Pension Committee before approval from full Council was sought. In view of this, and after further consultation with the Chairman of Pensions Committee, the recommendations to full Council on 26 March would stand as shown in the report].

5.7 Officers agreed to look into the situation that could arise if a member's 8-year term (i.e. the maximum two 4-years terms) ended during of their term as chairman / vice chairman.

P Towey
M Nendick

5.8 In relation to point 9.1 of the report (point 11.1 of the terms of reference) Members highlighted the need to emphasise the independence of the Board from the County Council by clarifying that most of the Board Members were not County Council Members. *[Subsequent to the meeting, the Chief Legal Officer explained that what is intended is that the Board members can claim travel and subsistence allowances at the same rate as members of the Council – not that the scheme applies to them because they are members of the Council].*

5.9 Officers clarified that due to the number of Members that had tendered their resignation and induction required for the new members, a business plan would be brought before the Board at its meeting in July 2019.

M Nendick

Conclusions:

5.10 The Pension Board noted the contents of the report and the recommendations that were agreed at Pensions Committee in February 2019 set out in sections 1 to 4 below. These recommendations would be taken to Full Council in March 2019 for approval.

1. That the arrangements relating to the appointment and term of office of members of the Board set out in Paragraphs 5 and 6 of the report, including the transitional arrangements referred to in those Paragraphs, be approved;
2. That the proposed change in the terms of office of the Chairman and Vice-Chairman of the Board set out in Paragraph 7 of the report be approved;
3. That the amendments to the Constitution of the Board as set out in Appendix A be approved.
4. That members of the Board be entitled to receive expenses in accordance with the Scheme for Members' Allowances.

6. ACCESS UPDATE

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

6.1 Members received an update on the work undertaken by ACCESS since the last report to the Board in December 2018.

6.2 The following changes was noted in relation to the ACCESS pool:
1. In January 2019 the Baillie Gifford-UK equity sub fund had transitioned to the Authorised Contractual Scheme (ACS) and Hertfordshire Fund assets of £345m had transitioned into it, the total Hertfordshire Fund assets in the ACS being £605m, with an

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additional £1,905m of passively managed assets in the ACCESS pool.

2. Overall savings of £1.12m per annum would accrue to the Hertfordshire fund from the transition of the Baillie Gifford mandates;
3. Six tranche two equity sub-funds totalling £6.5bn were launched in February 2019;
4. Hertfordshire's £620m fixed income mandate with Royal London Asset Management would transition as part of the £3.2bn global equity and fixed income tranche 3 sub funds in May 2019;
5. The contract manager for the ACCESS support unit (ASU) was in place and a number of ACCESS funds had now provided technical officer support;
6. An operational governance manual defining how activities and decisions were made within the Pool was being developed;
7. As the ACCESS pool was operational a review of the Inter Authority Agreement (IAA) was underway to establish if any amendments were required to the relationship between the participating Funds.

6.3 Officers agreed to ascertain whether any ACCESS Pool director appointed at the interviews on 22 March 2019 would have access to the Pension Fund.

P Towey

6.4 The Board noted officers' concerns in relation to the Ministry of Housing, Communities and Local Government's (MHCLG) informal consultation on draft statutory guidance on asset pooling, in particular that it did not:

- explicitly reference value for money (a fundamental objective of pooling and constituent with the original guidance) i.e. diminution of the role of Pension Committee and fiduciary responsibility;
- reflect the government's 2016/17 position which was that direct property investments could be held outside of the pool indefinitely as this was more cost effective;
- reflect the anomalies between pools i.e. some pools such as ACCESS were not FCA regulated bodies and were using third party operators to deliver pooling.

In view of these concerns the ACCESS Funds were voicing their concerns as one to the MHCLG.

6.5 During discussion officers clarified that:

- each fund bore 1/11th of the ACCESS administration costs;
- although most of the ACCESS costs for 2019/20 would be ongoing and those related to the commission of technical expertise on illiquid structures and related legal arrangements, the reliance on third party project management would reduce as more sub-funds were established. All the funds were held in custodial accounts;
- To date ACCESS had appointed 1 passive manager (UBS) as it

provided significant savings, however following government direction that pools consider the benefits of passive versus active management, should the overall benefits of active management decrease more funds could be moved into passive management;

- The funding valuation had an impact on the funding strategy which was currently moving to a defensive stance, however different asset strategies could be considered for employers that had a deficit and those with a surplus;

Conclusions:

6.6 The Pension Board noted the content of this report.

7. DATES OF FUTURE MEETINGS:

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

19 July 2019: 10.00 AM
17 September 2019 : 10.00 AM
09 December 2019: 10.00 AM
16 March 2020: 10.00 AM
15 July 2020: 10.00 AM

8. OTHER PART I BUSINESS

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 in the paragraph directly below.

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.

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 10 December 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

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Part II Minutes.

3. PENSION FUND – COST OF INVESTMENT MANAGEMENT

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

**4. PENSION FUND – FUNDING AND INVESTMENT REPORT
(Formerly PERFORMANCE REPORT) AS AT 31 DECEMBER 2018**

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

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

**KATHRYN PETTITT
CHIEF LEGAL OFFICER**

CHAIRMAN _____

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