

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 JULY 2019

ATTENDANCE

MEMBERS OF THE BOARD

Employer Representatives: D Ashley, G Clay,
Member Representatives: M Collier (Chairman), G Johnson, K O'Daly, M Patel

STANDING SUBSTITUTE MEMBERS

Employer Representatives: J Hurley
Member Representatives: D Gooden, T Perkins

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

Announcements:

- (i) The chairman announced that J Anderton, D Ashley, G Clay, D Graham, J Hurley and T Hone had been re-appointed to the Employer side for the board and welcomed M Patel to the Board as a Member representative;
- (ii) The chairman drew members' attention to the Chief Legal Officer's direction in regard of active, deferred or retired members of the LGPS Pension Scheme serving on the Board. In summary, "*members of the LGPS will not have a conflict of interest simply because the Board member represents one of the employing authorities in the Scheme or is a member representative*"..... *If, however, a member of the Board has a conflict of interest for some other reason, then that would have to be declared and the implications of that interest on participation considered.*"

PART I ('OPEN') BUSINESS

1 MINUTES PART 1

1. The Minutes (Part I) of the LGPS Pension Board meeting held on 19

March 2019 were confirmed as a correct record and signed by the Chairman subject to correction of a typographical error at 6.4 where the first bullet point should read:

'explicitly reference value for money (a fundamental objective of pooling and **consistent** with the original guidance) i.e. diminution of the role of Pension Committee and fiduciary responsibility;'

2. PENSION FUND AUDIT RESULTS REPORT

[Contact: Suresh Patel, Associate Partner Ernst & Young LLP]

- 2.1 The Board received the Hertfordshire Pension Fund Audit Results report for the year ended 31 March 2019.
- 2.2 Suresh Patel of Ernst & Young (EY) confirmed that an unqualified opinion of the Pension Fund accounts would be issued. The testing on the Level 3 investments (i.e. investments which were more difficult to value such as unquoted pooled investment vehicles, e.g. private equity, global alternative funds and infrastructure debt) had been completed without issue. EY had not identified any material weaknesses in controls of the investment managers which would impact the fund and the valuation basis of the investments were appropriate based on their classification under IFRS 13
- 2.3 S Patel commended the Finance Teams' early liaison with the actuary over the McCloud ruling in relation to age discrimination arising from public sector scheme transitional arrangements, which might require a late change to the pension fund accounts and IAS26 fund liability disclosure. However, although the draft pension fund accounts had recognised this as a contingent liability, the government's work to establish a level of certainty indicated that this might not be the correct treatment and may require incorporation into the assessment of the scheme liability depending on the materiality of the issue. It was noted this may impact on future accounts.
- 2.4 The chairman commended the Finance Team and all involved in the production of the accounts and the audit.

Conclusion:

- 2.5 The Pension Board noted the audit results report.

3. RESPONSE TO THE AUDIT RESULTS REPORT 2018/19 – PENSION FUND

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

- 3.1 The Committee received a report providing a response to EY's draft Audit Results Report (ARR) 2018/19 – Pension Fund.

- 3.2 The Board heard that there were no recommendations from the auditors who expected to confirm an unqualified opinion on the accounts. Further to this EY did not consider of significance any of the small number of minor disclosures which had been agreed with management for amendment.
- 3.3 The Board noted the Management Letter of Representation for the Hertfordshire Pension Fund Audit 2018/19

Conclusion:

- 3.4 That the Board noted the response to the Audit Results Report 2018/19, and the Letter of Representation which would be signed by the Director of Resources and Chairman of the Audit Committee on 19 July 2019.

4. PENSION FUND ANNUAL REPORT AND STATEMENT OF ACCOUNTS 2018/19

[Contact: James Kidd, Senior Accountant (Tel: 01992 555706)]

- 4.1 The Board received the audited Pension Fund Annual Report and Statement of Accounts for 2018/19 (“Report and Accounts”).
- 4.2 Members learned that the value of the Pension Fund had increased by £366.0m and showed the Fund was cash flow positive. Further to this the overall investment return for the year was 6.9%, i.e. in excess of the annual 5.1% benchmark, and membership had increased by 3,949 to 103,866. Officers highlighted that the fall in investment management expenses of 11.9% from £12.0m to £9.9m arose largely from economies of scale in the negotiation of lower fees from Fund managers in the movement of funds to ACCESS
- 4.3 Members attention was drawn to the Governance and Compliance Statement ‘Terms of Reference’ and Pension Committee’s current responsibility for appointing (and, when necessary, dismissing) Investment Managers which, as national pooling of LGPS funds progressed, would ultimately transfer to the operator of the ACCESS pool. Pensions Committee would, however, still retain control over the asset allocation and sub-funds used by the Operator of the Pool. The governance report had come before Pensions Committee on 12 July where it had been amended (cf. Appendix B to the report, page 8) to reflect ACCESS’ progression from on boarding to implementation.
- 4.4 The Board heard that the Annual Report would have to be updated in relation to the McCloud ruling.
- 4.5 There were no comments from the Board.

**CHAIRMAN’S
INITIALS**

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Conclusions

- 4.6 The Pension Board:
- Noted the audited Report and Accounts for 2018/19;
 - Noted the July 2019 Governance Statement in Appendix B, to be used going forward.

5. PENSION FUND GOVERNANCE AND RISK MANAGEMENT REPORT

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

- 5.1 The Board received the quarterly report on governance and risk management of the Pension Fund for 1 January to 31 March 2019 which also encompassed the Administering Authority Report on Performance Indicators for the Administration Strategy; specific Scheme Employer matters; and details of reports presented to the previous meeting of the Pension Committee which were not on the Pension Board agenda, including its response to feedback or comments from the Board.
- 5.2 During discussion Barry Dodds (Hymans Robertson) clarified that the McCloud ruling posed a risk to the fund in terms of both potential size of the pensions benefits liability and also the complexity of having to examine the last 5 years of benefits, the latter being the greater risk.
- 5.3 The Board welcomed the level of pension fund employer attendance at the LPP's training event on the submission of returns, which would assist them to provide accurate and up to date membership data for the 2019 valuation.
- 5.4 B Dodds clarified that volatility in the discount rate resulted in a higher impact on the method of calculating contribution rates for unfunded public pension schemes (e.g. those for the police, teachers) than the LGPS as the LGPS is a funded scheme.
- 5.5 Members heard that a report on the issue of Outstanding Admission Agreements would come before the Board in the autumn. Officers emphasised the Council's position as a 'facilitator' of admission agreements and the associated difficulty in including target completion dates on the 'Outstanding Admission Agreement Action Plan', the ceding employer retaining the liability if no bond was in place.
- 5.6 In order to provide granularity in respect of the £3.5m in net surplus assets assigned to the red risk category, officers agreed to also provide the gross figures and gave a verbal update.

A Namubiru
J Kidd

J Kidd,
A Namubiru

**CHAIRMAN'S
INITIALS**

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5.7 Officers offered to provide the Board with a breakdown of the 1 year plus category of Admission Agreements which remained outstanding for more than 2, 3 years etc. J Kidd, A Namubiru

5.8 Officers confirmed that the Board's business plan would be presented to the September meeting and would mirror the one for the Pensions Committee. J Kidd

Conclusions:

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

**6. LOCAL PENSIONS PARTNERSHIP
LOCAL GOVERNMENT PENSION FUND ADMINISTRATION
REPORT Q4**

[Contact: Taryn Mutter, Head of Engagement and Customer Liaison (LPP)]

6.1 The Board received the quarter four 2018/19 update from the Local Pensions Partnership (LPP).

6.2 Members welcomed the improvement in the LPP administration service against service level agreement over the last 12 months, and over the quarter during which overall performance had risen to 99.39%.

6.3 The Board heard that LPP had focused on member experience and introduced a feedback mechanism to measure contact centre satisfaction. The first set of results for all of LPP's client pension schemes indicated that the majority of people felt they had received good service from the contact centre. Members noted that LPP are working with the provider to determine whether client specific data could be extracted and presented to the board. T Mutter J Crowhurst

6.4 Members heard that two new performance measures for the Contact Centre had been introduced: number of calls connected and % connected. The decrease in average call wait time to 1m 27 s and maximum call wait time to 9m 54s was welcomed. LPP informed the Board that there was a call diversion system in place for calls that were not answered within 10 minutes. The intention is that this will be reduced to 5 minutes subject to LPP exploring the practicalities of implementation. In response to feedback, case ownership was being introduced enabling members and employers to deal with a single person throughout the progress of their enquiry.

6.5 One month's data had been collected via the Gov Metrics survey in respect of inbound calls, emails and retirement experience; 62% of

**CHAIRMAN'S
INITIALS**

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those who completed the email survey were satisfied, however as response time was considered slow the focus was now on bringing this down from 5 days to 2.

6.6 During discussion, LPP advised that they were unable to confirm whether they would be able to consider providing callers to the call centre with their position in the queue and the call wait time, however they had introduced a system to monitor it. Officers highlighted that as this information had not been available a year ago when LPP's contract had been drawn up it did not form part of their contract.

6.7 To the suggestion of increasing the sophistication of LPP's processes to accommodate automated options for common requests (e.g. P60s), the Board heard that members had the option of self service via the online system. Members who registered for the online system using the same email address as that held by the LPP were provided with automated options via the online system. However, if a different email address was provided, the member would receive an activation key by post once they have registered or they could telephone the Contact Centre who would deal with the request. Members who opted out of the online system were sent hard copy P60s and ABS's by the statutory deadline. The online system also allowed members to calculate their retirement projections.

6.8 Noting that greater use of the online self-service option would reduce pressure on the Contact Centre, the Board suggested improving the promotion of the online self-service option. In view of the success that the Fire Pensions administration service had in engaging its membership through its Fund with the Fire Pensions online self-service option, officers agreed to see what lessons could be learned. The Board heard that differed members of the LGPS scheme were the most difficult to reach and had to be contacted by post.

P Towey

6.9 In view of confusion by a member regarding redundancy estimates, T Mutter agreed to provide K O'Daly with information on the appropriate options to complete on the forms.

T Mutter

6.10 During discussion of the data on deaths, LPP clarified that the data in the performance table detailed the number of cases looked at as part of the workflow system and was not the number of deaths in the quarter. LPP offered to provide, in future reports, a narrative on the circa 5% of cases missed in the workflow system. Members heard that the 5 day target for processing deaths was measured from LPP's receipt of all required information.

J Crowhurst

Conclusions:

6.11 The Pension Board noted the content of this report.

7. ADMISSION AGREEMENTS

**CHAIRMAN'S
INITIALS**

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

- 7.1 The Board received a report on the outcome of the work undertaken by the cross-party member working group in the development of a Fund policy for the admission of new bodies to the Hertfordshire County Council Pension Fund. The object of the policy being to clarify the entitlement of transferring employees, protect the Fund from financial loss and encourage (or incentivise) new employers to sign their admission agreements
- 7.2 Members were updated that the policy had been approved by Pensions Committee on 12 July 2019 subsequent to minor amendment. A hard copy of the finalised version was tabled and can be viewed at: [Supplementary Document-Item 7-Policy relating to Admission Agreement Delays](#). The policy applied to all New Employers where the Transfer Date was on or after the date of policy adoption i.e.12 July 2019 and, to those New Employers who currently employ Transferred Employees but have not yet signed an admission agreement on the date the policy was adopted.
- 7.3 Officers confirmed that work would be undertaken over the summer with LPP on the implementation of the policy, i.e. a review of outstanding agreements and the most appropriate way to communicate with affected employees (to avoid causing undue stress) and employers.
- 7.4 During discussion Victoria Jeacock, Senior Associate at Squire Patton Boggs clarified that although the outcome of the national consultation in relation to a 'fair deal' on this issue for the LGPS was awaited, the Fund's external lawyers considered it appropriate to take this policy forward.

Conclusions:

- 7.5 The Pension Board noted the content of this report and the finalised Policy for admission of bodies to the Hertfordshire Pension Fund.

8. ACCESS UPDATE

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

- 8.1 The Board received a quarterly update on work undertaken by ACCESS since the March 2019 report to the Board.
- 8.2 The Board noted the following changes in relation to the ACCESS pool:
1. The Royal London UK Core Bond sub fund had transitioned to the Authorised Contractual Scheme (ACS) and Hertfordshire

**CHAIRMAN'S
INITIALS**

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- Fund assets of £605m had transitioned into it.
2. Hertfordshire Fund assets in the ACS now stood at £1,316m which, in conjunction with the £1,900m of passively managed assets under the ACCESS governance totalled £3,216m;
 3. The campaign to recruit an ACCESS Director had been unsuccessful however, subsequent to a call for applications from officers of the ACCESS Funds the role had now been offered;
 4. A governance manual had been produced on how activities and decisions were to be made within the ACCESS Pool and by whom;
 5. Work (including legal advice) was underway to look at establishment of illiquid structures for pooling illiquid assets e.g. private equity, property and infrastructure investment;
 6. Ernst and Young (the auditor) were satisfied with the governance of ACCESS and welcomed the Governance manual.

8.3 During discussion the Board received assurance that the Pool only invested in managers with a good track record; being part of the pool also provided individual Pension Funds with access to a wider spectrum of fund managers. Underperforming fund managers would be monitored and required to explain performance to the Joint Committee. If performance did not improve then the ACCESS Joint Committee reserved the right to recommend to the operator that the manager was dismissed.

Conclusions:

8.4 The Pension Board noted the content of this report.

9 DATES OF FUTURE MEETINGS:

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

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

10. 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 4 of Part 1 of Schedule 12A to the said Act and the public interest in maintaining the

**CHAIRMAN'S
INITIALS**

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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 19 March 2019.

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

2. **TRIENNIAL VALUATION – ACTUARIAL ASSUMPTIONS**

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

3. **PENSION FUND – FUNDING AND INVESTMENT REPORT (Formerly PERFORMANCE REPORT) AS AT 31 MARCH 2019**

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.

**QUENTIN BAKER
CHIEF LEGAL OFFICER**

CHAIRMAN _____

**CHAIRMAN'S
INITIALS**

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