

Pensions Sub- Committee Minutes

Wednesday 22 June 2016

PRESENT

Committee members: Councillors Michael Adam, Nicholas Botterill, Iain Cassidy, PJ Murphy and Guy Vincent

Officers: George Bruce (Director of Treasury and Pensions), David Coates (Interim Payroll Manager) and Nicola Webb (Pension Fund Officer)

External: Kevin Humpherson (Deloitte) and Jason Bailey (Head of Pensions, Surrey County Council)

62. ELECTION OF VICE - CHAIR

RESOLVED –

Councillor Adam was elected as Vice Chair of the Pension Sub Committee for the 2016/17 municipal year.

63. MINUTES OF THE PREVIOUS MEETING

RESOLVED –

THAT the minutes of the meeting held on 23 March 2016 were agreed as correct record and signed by the Chair.

64. APOLOGIES FOR ABSENCE

Apologies from Councillor Vincent who would be late to the meeting.

65. DECLARATIONS OF INTEREST

There were no declarations of interest.

66. UPDATE ON PERFORMANCE OF SURREY COUNTY COUNCIL PENSIONS ADMINISTRATION SERVICE

David Coates (Interim Payroll Manager) gave an update on Surrey County Council, who took over from Pension Administration services from 1st September 2015. He stated that the environment had been challenging for Surrey due to two reasons. The first being the inherited problems such as the backlog of case work and historical pensions not being paid. David noted that the record housekeeping was not kept up to date by the previous Administrator and Surrey are currently having to rebuild the data by looking at old systems

The second issues was that transfer of staff was not allowed, meaning no background information was inherited. Councillor Botterill asked if there were issues with the system in the first place, would it not be better to not have the same staff. Jason Bailey (Head of Pensions, Surrey County Council) replied, that it was a bit of a double-edged sword, as there was a failure to record data, so areas that need to be caught up on have not been identified.

David stated that within the transfer scheme, the company did not transfer some data properly, which was currently being rectified with the deadline of July. Due to the incomplete transfer, Jason stated that one full time position would be required for a year, mostly to do historical data cleansing. With 226 deferred pensions and 600 pieces of historical case work, Jason explained that there was a lot of work involved.

Councillor Botterill asked if the how long the positions would be needed, Jason replied that there would be a hope to look at more partnerships, potentially looking at fixed term contracts. If good quality staff was found then, maybe continue full time. He explained that an assumption of a year, has been made about how long the work would take, on past experiences.

The total cost of the resource was raised by Councillor Murphy. David replied that it would cost £100,000 but could be higher or lower depending work undertaken. Councillor Murphy asked if anything was stated in the contract that data should be transferred accurately. David replied, that yes there was and the team are still in discussion with Capita about how accurate the data was. An audit of the data was supposed to be done by Capita before hand over.

As Surrey had taken over, an internal review of payroll had been undertaken by BT and the council. Surrey had also run seminars for external bodies about responsibilities when providing data and to staff affected by lifetime allowance.

Surrey had also introduced a Pension Help Desk staffed by four now increasing to six people. There had been an increased interest and awareness in pensions from the end of 2015, with 3,500 enquiries occurring in the past 4 months.

Councillor Murphy questioned the potential cost. Jason replied that the restructuring has started last year with no cost to the council. Councillor Murphy queried the process. He reported that it had taken 6 months for a

member of staff to receive a response to a pensions query. It was agreed that Jason should look into this issue.

Councillor Murphy also asked if staff currently received annual statements of benefits, such as salary, life insurance and pensions. David replied that currently they do not and only pensions has a statement.

RESOLVED -

It was agreed that a further update be submitted by Surrey County Council in six months'.

ACTION: David Coates and Jason Bailey

67. PENSION FUND QUARTERLY UPDATE

Kevin Humpherson (Deloitte) provided a brief update. He stated that there are no red flags, noting positive performance such as M&G and Majedie on page 16 of the report. Standard life, he stated, had underperformed the benchmark but added that the benchmark was a gilts related and therefore the underperformance was expected.

Ruffer's performance was noted, with Kevin stating that they were currently having issues with Japanese equities. Councillor Murphy, stated that looking at the 5 year annualised performance number, Ruffer have only just exceeded the benchmark, and wondered if it was time to re-look at the investment. Kevin replied that Ruffer are more prudent investors aiming to maintain capital and have been operating a strategy designed to protect value in the event of markets falling. This has resulted in below benchmark performance when markets have risen. George Bruce (Director of Treasury and Pensions) suggested that a meeting with the managers be arranged to touch base about investments, which was agreed by the sub-committee.

ACTION: Nicola Webb, George Bruce

Councillor Botterill questioned the summary on page 11 that the number of active members had increased. It was believed that the increased numbers could be due to the data issues highlighted by Surrey. It was agreed by the sub-committee that Nicola Webb (Pension Fund Officer) would look into the data.

ACTION: Nicola Webb

Councillor Adams asked officers to consider the correlation risks in the Fund's investment portfolio. In particular to determine if the portfolio was as diversified as the sub-committee thinks by looking at regions, industries etc. Kevin said such modelling could be done using information from the fund managers about the underlying holdings in the portfolios. Officers will report back to the next sub-committee meeting.

ACTION: George Bruce, Nicola Webb

68. PENSION ACTUARIAL VALUATION UPDATE

George briefed the Sub-Committee on the valuation timetable which would begin with data submission in July. The first cut of the results would be expected in September for the Committee to discuss, with final figures becoming available in November and December.

Councillor Murphy queried how the comparison of data from Capita and Surrey would occur. Nicola replied that two meetings had occurred to discuss the issue, with the data being highlighted where there could potentially be issues. George added that additional time to look at the data was needed and a proper discussion held in September.

George continued, stating a new employer contribution rate comes into payment on 1 April 2017. The agreement of the contribution rate is a standard process, similar to that of 3 years ago. However, small external employers get a chance to challenge.

George explained that the Section 13 valuations which will involve a review by the Government Actuary's Department to see if all LGPS funds comply with guidance adds pressure to shorten deficit recovery periods.

Councillor Botterill stated that with the review ongoing, the government has stated that schemes should be more prudent, and so contribution rates could go up. George responded that there had been a dry run of the 2013 valuation, so actuaries knew what to expect. But the Committee would discuss what processes and assumptions to use.

Councillor Botterill asked what was driving these changes, George explained that a perceived lack of transparency, and a move to improve standardisation and comparability between funds. Basically, it was trying to get pension employers to address any deficits sooner rather than later.

George continued, explaining that 20 years is the norm for deficit recovery periods and the Government will look at consistency from valuation to valuation. Nicola added that H&F have adapted their recovery period, moving from 25 years in 2010 to 22 years in 2013.

RESOLVED –

That the report was noted by the Committee

69. ASSET POOLING AND LONDON CIV UPDATE

Nicola gave an update on asset pooling and the Government's request for information. She stated that an overall London response was submitted in February and a further response is expected by July. In addition to information from the London CIV, the government would also want specific response from each borough. Hammersmith and Fulham's response has been drafted, in Appendix 2 and 3.

Nicola explained it had been assumed that all assets would transfer to the CIV in time with the exception of the closed ended funds. The SIP target of 5% for infrastructure had been included. Councillor Adam stated that originally the aim was to allocate 7-8%. George replied the decision is still open and is just an indication of what the committee intend to do. Councillor Adam commented that the committee would be happy to invest 7%, if the risk/reward characteristics of an investment opportunity were appropriate, in an effort to keep more options open.

ACTION: Nicola Webb

The committee asked George his opinions on London CIV and its management. He commented that he was concerned that the CIV required additional resources to take on the demanding role of managing £25bn of investments.

Councillor Murphy asked what was the structure and whether it was felt they had the right staff for the long term. George replied that all 32 boroughs have signed up, with the plan for CIV to have 12 staff. He continued that only 2 members of staff are wholly involved in investments and soon all aspects of manager selection will be managed by CIV.

Councillor Botterill added that CIV will then be held accountable. The Chair commented that many other London Borough pension committee chairs raised issues of the lack of staff at CIV, with a suggestion of more attention to the longer term strategy, but many boroughs are against more fees. George stated that the combined fees paid to investment managers by London boroughs were in the region of £130 Million in 2015, equivalent to £4 million per borough. But so far are only paying £25,000 per year to the CIV. George added he would have likely to have seen the CIV employing someone with experience of running a fund management company.

RESOLVED –

The Chair was overall happy with the changes suggested to the report.

70. PENSION FUND INVESTMENT STRATEGY

Nicola stated that key recommendation for the report was to make rebalancing adjustments by disinvesting from Majedie and investing the monies in Oak Hill and Insight Bonds.

She also mentioned on how the Committee should think about monitoring fund managers, with the suggestion of an annual monitoring managers day, but were very open to suggestions.

The Chair asked how the structure of that meeting would occur, whether it would be part of a Committee meeting or a separate day. George replied that the managers would be brought in for one day. Councillor Murphy raised concerns that one day is not enough to discuss all the information needed and might be an over domination of the agenda. Extra meetings were

suggested, where the managers were 'interviewed' and given half an hour to discuss issues with the agenda set beforehand. The Committee were supportive of the idea, with the focus being on setting a date, realistically in Autumn for two half days.

In terms of rebalancing the investment strategy, Councillor Adam requested that the impact on risk and return be looked at before a decision is made. George replied that the current strategy delivered a preferred expected return and expect risk. As the markets change over time, rebalancing will revert to the previously agreed targets. Councillor Adam commented that it would be a useful exercise to look at what would move return, such as a sense check. Councillor Murphy asked if the strategy was followed to the letter, would it look any different to what it does now? Both George and Kevin responded that it would not be dramatically different.

RESOLVED –

That all allocations and overall balance of the portfolio to be looked at, in the light of the actuarial valuation results later this year.

That officers provide information to the Committee by email and then proceed with rebalancing unless any member of the sub-committee objects.

ACTION: Nicola Webb, George Bruce

71. PENSION FUND FORWARD PLAN

Resolved –

The Committee agreed with the plan.

72. DATE OF THE NEXT MEETING

21 September 2016 at 7pm

Meeting started: 7.00 pm
Meeting ended: 8.45 pm

Chair

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