

Pensions Board Minutes

Wednesday 6 February 2019

This meeting was not quorate. The following notes are brief discussions held by the Committee.

PRESENT

Committee members: Councillors Rory Vaughan

Co-opted members: Orin Miller

Officers: David Coates, (HR and Payroll Consultant), Lesley Bell (Business & Performance Manager), Mark Grimley (Director of Corporate Services), Phil Triggs (Director of Treasury and Pensions), Timothy Mpofu ((Pension Fund Manager)

1. **APPOINTMENT OF VICE CHAIR**

This was deferred to the next meeting.

2. **MINUTES OF THE PREVIOUS MEETING**

The minutes of the previous meeting were noted.

3. **APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor Bora Kwon, Neil Newton, and Eric Kersey.

4. **DECLARATIONS OF INTEREST**

There were no declarations of interest.

5. **MINUTES OF THE PENSIONS SUB-COMMITTEE**

The minutes of the Pensions Sub-Committee were noted.

6. **LOCAL GOVERNMENT PENSION SCHEME (LGPS) ADMINISTRATION PERFORMANCE UPDATE**

David Coates, HR and Payroll Consultant introduced the report and provided an update on the performance of Surrey County Council (SCC) pension administration services. Performance across monthly Pensioner Payroll and Annual Exercises had

achieved 100%. In addition, the Pensioners Newsletter would also be circulated in April 2019. It was noted that the Pension Administration figures for January 2019 were not yet available.

David Coates, said that SCC had agreed to prioritise their resources on the resolution of queries at the first point of contact. This would be supported via a dedicated help desk to enhance the user experience. As a result, the rate for first point of contact resolution based on an average of 500 queries per month was 89%. This was an improvement from 2017/18.

Following the Q2 results it was identified that the performance for Transfer In and Transfer Out was unacceptable. In response SCC created a specialist team to make improvements in this area.

In Q2 two new portals were launched. These were designed for use by Scheme Members and Employers with the aim of providing more up to date paperless information. Annual Benefit Statements (ABSs) for the year 2017/18 were made available online via the portal to Scheme Members. Furthermore, training sessions were also provided by SCC to members which had received positive feedback.

David Coates commented that work was being carried out to ensure that member records would be updated prior to the triennial valuation in April 2019.

Orin Miller, Co-Opted member asked how scheme members were notified of their ABSs using the online portal. In response David Coates said that a letter was circulated to all scheme members, advising them to register and log on to their account to access their statements.

The Chair expressed his disappointment around the performance levels for some of the administration services and asked for clarification around what had caused the drop in these areas in December 2018. David Coates said that some funds were not processed within the expected timeframe due to discrepancies in the quality of information inherited from BT. This had led to a delay in SCC processing this information, therefore had a negative impact on some of the performance levels.

The Chair asked if BT had been issued with any penalty charges due to their lack of engagement in this matter. David Coates explained that the Council was unlikely to receive any compensation for this error from BT, as the team that provided this service to the Council had been dispersed and no longer existed.

The Chair thanked officers for the update and noted the progress that had been made by SCC. In addition, said that it was good to see that scheme members were using the online portals and accessing their ABSs.

7. NON-PAYMENT OF PENSIONS CONTRIBUTIONS BY TBAP MULTI ACADEMY TRUST

David Coates, HR and Payroll Consultant provided a brief background on the TBAP Multi-Academy Trust and noted that TBAP was a scheduled body of the Council's Local Government Pensions Fund.

Between July 2017 and March 2018 due to cash flow issues TBAP failed to pay employer and employee contributions to the Council's Pensions Fund in respect of the Bridge AP Academy employees who were members of the Local Government Pension Scheme (LGPS). The Retained Pensions Team conducted a series of telephone and written conversations with TBAP until the matter was resolved. In addition, the issue was reported to the Pensions Regulator and their response was included in Appendix 1. The Pensions Regulator expressed their concerns around the Council's failings. Furthermore, the delay in reporting the breaches and the lack of communication with members regarding this matter was highlighted.

David Coates noted that due to the seriousness of this matter and as recommended by the Pensions Regulator it was appropriate to notify the Pensions Board of this issue.

The Chair asked how many scheme members were affected by this issue. In response, David Coates said that this related to the 150 scheme members that were accessing services through the Bridge AP Academy.

The Chair said that should a similar issue arise in the future a request for a special meeting be made as a priority due to the importance of reporting such matter to the Pensions Board.

8. EQUITY PROTECTION

Phil Triggs, Director of Treasury and Pensions, provided a brief background of the Fund's equity protection allocation. He noted that the Pensions Sub-Committee had considered different types of equity protection strategies available that provided equity downside protection. In addition, a special training session was also held on the subject to ensure that the Pensions Sub-Committee was fully briefed on all areas of equity protection. Officers also had numerous discussions with advisors on whether adopting this strategy would be beneficial for the Fund, but concluded that it would not be appropriate for the reasons set out on page 39 of the agenda pack.

At the November 2018 meeting the Sub-Committee decided not to pursue any form of equity strategy for the foreseeable future.

9. LOW CARBON STRATEGY

Phil Triggs, Director of Treasury and Pensions, introduced the report and noted that the Pensions Sub-Committee was presented with various options on low carbon at the July and September 2019 meetings. This included the FTSE Russell and Low Carbon and the MSCI World Low Carbon indices. MSCI World Low Carbon Index had outperformed the MSCI World Index over a seven-year cycle. This presented a compelling case for moving the portfolio to this index as part of an investment decision to secure better returns from the portfolio. The Sub-Committee was reminded of its fiduciary duties and considered the Environmental Social and Governance (ESG) factors in line with its responsibility to ensure a positive investment outcome, e.g. using a responsible investment approach, whilst monitoring the financial implications for the Fund.

Based on various factors the Sub-Committee decided to transition its entire passive equity holdings from the MSCI World Index to the MSCI world Low Carbon under the existing LGIM mandate as they felt this was the most suitable option for the Pension Fund. This transition was completed on 18 December 2018.

10. IBC ONBOARDING

Phil Triggs, Director of Treasury and Pensions noted the changes to employee pensions contribution calculations, arising from the move to the Hampshire County Council Integrated Business Centre (IBC). There would be changes to how employee contributions bandings were calculated and the effect of auto-enrolment for some employees prior to some individuals choosing to opt out.

The Chair asked how the new arrangements would impact the Fund. In response, Phil Triggs noted that the new method was a fairer, more equitable solution for both the Fund and members as it more effectively calculated the annual salary for pensions banding purposes. However, it was difficult to estimate whether net contributions would go up or down due to the complexities surrounding this.

It was noted that members would continue to be automatically opted onto the pensions scheme when employment commenced. Employees had the right to opt out for the scheme if they wished, by signing an opt out form.

11. PIRC ANNUAL REPORT

Phil Triggs, Director of Treasury and Pensions provided an update on the investment performance of the fund during the financial year 2017/18. It was noted that the average local authority fund produced a return of 4.5%. In comparison the Councils Pension Fund produced 1.7% which ranked in the 95th percentile. The reason for the comparably lower return and longer-term performance was also noted.

Orin Miller, Co-Opted Member said that the report was useful to read in terms of the performance. Furthermore, he commented that it would be useful to be updated on how individual asset classes performed including an estimation of the expected long-term returns going forward.

12. QUARTERLY UPDATE PACK

Phil Triggs, Director of Treasury and Pensions provided a summary of the Pension Fund's overall performance for the quarter ended 30 September 2018. This included administrative investment and cash management performance for the quarter. In addition, it was noted that the Pensions Fund risk register was revamped to show a more meaningful assessment of risks and actions taken to mitigate them. This had led to the identification of additional risk in investment, governance, and administrative areas.

The Chair asked for clarification around when the triennial valuation for the Fund was due to take place. In response, Phil Triggs said that the next review date was 31

March 2019 and the initial results would be available in October 2019. The final valuation and contribution rates would be concluded in March 2020.

Referring to Appendix 1 (Scorecard), the Chair commented that the figure for the deferred beneficiaries in March looked higher than expected and asked officers for this to be investigated and rectified subject to an error being established. In addition, he was pleased to note that most of the Fund's administration risks had moved to green on the risk register

13. GAD REPORT

Phil Triggs, Director of Treasury and Pensions provided an update on the Government Actuary's Department (GAD) report (2016 LGPS triennial actuarial valuation outcome). He explained that the original report was uncomplimentary across the LGPS Funds and was not reflective of their strong position. In addition, some of the tests were regarded by LGPS actuaries as not fit for purpose. Upon receiving notable challenges from various actuarial firms, GAD revised their report reflecting the improved funding positions across the board. The Council also received green flags across the board on the GAD's various tests which suggested that the Fund was in a relatively strong position.

14. MHCLG CONSULTATION UPDATE

Phil Triggs, Director of Treasury and Pensions explained that the Ministry of Housing, Communities and Local Government (MHCLG) had prepared a new statutory guidance on LGPS asset pooling. This guidance would set out the requirements on administering authorities and replace the previous guidance. Views were currently being sought on the draft guidance and the consultation process would close on 28 March 2019. A summary of the key points was outlined on page 186 of the agenda pack.

The Chair queried whether the Council would still have discretion around manager selection. In response, Phil Triggs said that this would not be the case going forward – pool members would need to establish and maintain a pool governance body to set the direction of the pool and hold the pool company to account.

The Chair asked for an update on how the new governance arrangements for LGPS were progressing. In response Phil Triggs said that LCIV had appointed Mike O'Donnell as LCIV Chief Executive and he was expected to join LCIV on 4 March 2019 to develop and deliver further benefits for London boroughs. There was a lot of optimism around his appointment. Furthermore, a Chief Investment officer would also be appointed following the departure of Julian Pendock.

Meeting started: 7:00pm
Meeting ended: 8:30pm

Chair

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