

Pension Board
Wednesday, 31 October 2018, County Hall, Worcester - 10.00 am

	Minutes
Present:	Mr K Bray (Chairman), Ms L-M Chapman, Ms K Wright, Mr P Grove and Mr N Shaw
Available papers	The Members had before them: A. The agenda papers (previously circulated); and B. The Minutes of the meeting held on 25 July 2018 (previously circulated).
112 Apologies (Agenda item 1)	An apology was received from Mr R W Banks.
113 Declarations of Interest (Agenda item 2)	Mr K Bray declared general interests in his role as the Forum Officer of the Local Authority Pension Fund Forum (LAPFF) - the Worcestershire Fund is a long-standing Forum member and in relation to work he undertook with a firm of US lawyers who were involved with Shareholder Litigation and had the County Council as one of its clients.
114 Confirmation of Minutes - 25 July 2018 (Agenda item 3)	RESOLVED that the Minutes of the meeting held on 25 July 2018 be confirmed as a correct record and signed by the Chairman. Further to Minute no. 119, Rob Wilson confirmed that meetings of the LGPS Central Shareholders Forum were held in private.
115 Pensions Committee - 5 October 2018 (Agenda item 4)	The Board received the Agenda papers and Minutes of the Pensions Committee meeting held on 5 October 2018. Members received a brief summary and commentary on the various items considered by the Pensions Committee. <u>Administering Authority – Administration Update</u> <ul style="list-style-type: none">• Bridget Clark introduced Chris Frohlich, the Fund's Engagement Officer who had commenced his new role on 26 October. It was anticipated that he would only attend Board meetings where necessary. Bridget Clark would share Chris Frohlich's contact details with Board members

- Bridget Clark indicated that ITM had been appointed to undertake the Guaranteed Minimum Pension Reconciliation (GMP) exercise on behalf of the Fund, who had been working hard to meet the strict HMRC deadline for receipt of queries, of 31 October 2018. The Pensions Committee had agreed a tolerance level of £2 per week for the exercise which meant that anything below that tolerance level would be deemed to be reconciled. ITM had given an assurance that the reconciliation exercise would be completed by the deadline. HMRC had indicated that they would respond to all queries received by the deadline. On receipt of the feedback from HMRC, further decisions might need to be made by the Committee
- How had the £2 tolerance limit been determined? Bridget Clark indicated that ITM had advised that this was a standard tolerance level applied across a number of funds
- Bridget Clark would check whether the Fund could be the subject of a judicial review as a result of the GMP Reconciliation exercise
- It was possible that as a result of the agreed tolerance level, members of the Fund could gain or lose up to £100 although they would be unaware of any impact
- Bridget Clark indicated that the key focus of the exercise was one-off larger payments or the more complex payments
- In response to a query, Bridget Clark confirmed that the Fund was working closely with the actuary who was kept informed of the progress of the reconciliation exercise
- The Chairman expressed his frustration at the inability to read the powerpoint presentation by the actuary at the Administration Forum. He felt that the size of the text of the presentation slides and the lighting and acoustics in the meeting room were unsatisfactory. Bridget Clark noted these concerns for future meetings of the Forum.

LGPS Central Update

- Rob Wilson indicated that the job description for the Chief Executive of LGPS Central had been agreed with the Section 151 Officer and head hunters had been engaged to find suitable applicants with the aim of making an appointment by 31 December 2018
- Rob Wilson commented that the Pool was behind schedule for the transfer of assets. A new cost-sharing model was being created and the

implications for the break-even point for this Fund was awaited

- In response to a query, Rob Wilson indicated that the possibility of arranging a further Stakeholder meeting was being considered. He would notify members of the Board when a date had been agreed
- In response to a query, Rob Wilson explained that the majority of the staff employed by LGPS Central had transferred from the West Midlands Pension Fund and Derbyshire Pension Fund. It was queried whether there was a potential conflict of interest as a result. Rob Wilson responded that staff operated within a Code of Practice and FCA regulations
- Concern was expressed about the ability of the LGPS Central to control voting in line with the agreed voting principles. In response it was commented that it was necessary for LGPS Central to have some form of control to ensure that the voting rights were exercised in a manner that would be beneficial for members of the Pool.

Pension Investment Update

- Rob Wilson indicated that LGPS Central had been asked to undertake due diligence checks on the Fund's property and infrastructure investments. It was reported at the Administration Forum that the Fund was 99% funded on a like for like liability update from Mercers as at the end of August 2018 based on the 2016 Actuarial valuation. A report would be presented to the next Pensions Committee on pension liabilities compared to the investment performance
- Would the Local Government Mutual Fund be a suitable source of funding for the property and infrastructure investments? Rob Wilson commented that it depended on the appropriateness of the returns and fees
- What amount constituted a "suitable" investment? Rob Wilson responded that it depended on the type of investment being considered and external advice received as part of the due diligence arrangements. In the case of Walton Street II a suitable commitment was deemed to be in the region of the current allocation of £27m.

Government Actuary Department (GAD Pension Fund Review Update)

- As markets were currently falling, would the benefits of the equity protection policy outweigh

the costs? Rob Wilson responded that it was difficult to say at this stage. The full benefits would not be known until the end of the Policy which coincided with the Triennial Valuation next year. Representatives of Rivers Mercantile would be reporting to the next Pensions Committee meeting on the current position and exploring future options.

Training Programme

- Simon Lewis confirmed that, subject to circumstances changing, the training session on 18 December would take place in the Lakeview Room at County Hall, Worcester
- It was requested that the future training programme include a session on transfers in and out of the Fund, death in service and retirement.

Risk Register

- Which Fund employers had poor covenant strength and how was the strength of the covenant arrangements assessed? Bridget Clark commented that the actuary provided advice on the strength of each fund's covenant arrangements. The Administering Authority was responsible for gathering the asset/liability returns from funds and had a 50% return rate. Funds had been reminded to complete the form at the Administration Forum. The covenant arrangements of each fund would be assessed by the actuary. Where the arrangements were rated as a red risk, more time would be invested in improving them. The returns were not mandatory so the question was what to do with those employers who had not produced a return
- In response to a query, Bridget Clark indicated that the Pension Regulator had not expressed any interest in the strength of covenants although they would be reviewing the administrative arrangements of some pension funds
- Would the Fund pick up any shortfall as a result of issues with the covenant arrangements and would there be any redress from the Government? Bridget Clark advised that it depended on the type of bond/guarantee in place for the fund
- Would it be possible to refuse to accept any further employers into the Fund? Bridget Clark stated that this approach had not been considered. The key issue was to establish which covenant arrangements represented a red or amber risk and address any issues before the

next Triennial Valuation

- Did the contribution rate differ between employers? Bridget Clark confirmed that this was the case which was why the actuary placed such importance on the data quality exercise
- Was the 50% employer return rate similar to other Funds? Bridget Clark responded that she was not aware of any data comparators. Every effort would be made to improve return rates
- It would be helpful to have a better understanding of the Pension Schemes admitted bodies, in particular the risks associated with the conversion of schools into academies and the associated TUPE arrangements. Bridget Clark indicated that these arrangements could be included as a session in the training programme
- In response to a concern about the loss of contact between the local authority and academies, Bridget Clark indicated that she would examine the returns to establish the percentage of returns by employer type and in particular, the response rate of academies
- As long as academies remained in the scheme, the benefits for members were guaranteed by statute. The issue was when an employer was unable to meet its contributions, for example if they pulled out of the scheme. Bridget Clark advised that academies could not pull out of the scheme therefore they were not required to provide a guarantee/bond
- In response to a query, Bridget Clark suggested that a section be included in the training programme on staff leaving and the reasons, including ill-health as well as the cost implications for the scheme.

Forward Plan

- Rob Wilson confirmed that although the closing date to provide information to the Actuarial Valuation and Funding Strategy Statement was 1 April 2019, there were a number of consultation phases to go through hence the reason for reporting to the Pensions Committee meeting on 4 October.

The Committee Reports and Minutes were noted.

116 LGPS Central Partner Funds Audit

The Board considered the LGPS Central Partners Funds Audit Assurance Framework.

In response to a query, Rob Wilson explained that Ernst

	Assurance Framework (Agenda item 5)	& Young were the external auditors to Staffordshire County Council who were leading on the audit assurance framework in consultation with the other partner funds.
117	Work Plan (Agenda item 6)	The Board noted the LGPS Central Partners Funds Audit Assurance Framework. The Board considered its work plan. The Board noted its work plan.
118	Any Other Business (Agenda item 7)	<u>Minutes of LGPS Central – Local Pension Board Chairs meeting -10 October 2018</u> <ul style="list-style-type: none"> • The Chairman commented that the LGPS Central Chairs meeting minutes highlighted the different styles and cultures of the Fund partners' investment advisory committees. He would report back to the Board after its next meeting on 20 February 2019.

The meeting ended at 12.00 Noon.

Chairman