

Pensions Committee

Friday, 5 October 2018, County Hall, Worcester - 10.00 am

Present:

Minutes

Mr R W Banks (Chairman), Mr P Middlebrough and Mr P A Tuthill

Co-opted Members (voting) – Mr V Allison (Employer representative), Mr A Becker (Employee representative) and Mr R J Phillips (Herefordshire Council)

Available papers

The Members had before them:

- A. The Agenda papers (previously circulated); and
- B. The Minutes of the meeting held on 22 June 2018 (previously circulated).

**130 Named
 Substitutes
 (Agenda item 1)**

None.

**131 Apologies/
 Declarations of
 Interest
 (Agenda item 2)**

An apology was received from Mr R C Lunn.

An apology for being late was received from Mr P Middlebrough.

**132 Public
 Participation
 (Agenda item 3)**

None.

**133 Confirmation of
 Minutes
 (Agenda item 4)**

RESOLVED that the Minutes of the meeting held on 22 June 2018 be confirmed as a correct record and signed by the Chairman.

**134 Administering
 Authority -
 Administration
 Update (Agenda
 item 5)**

The Committee considered the Administering Authority - Administration Update.

In the ensuing debate, the following principal points were raised:

- Bridget Clark explained that HMRC had confirmed that they would not receive any further submissions under the GMP Reconciliation arrangements after the closing date at the end of October. HMRC had been lobbied to request an

extension of the deadline

- In response to a concern about the restricted timescales for pension funds to undertake the reconciliation exercise, Michael Hudson indicated that HMRC had initially notified pension funds of this exercise around 4 years ago so there had been sufficient time to make the necessary arrangements. It was too early to say whether or not the outcome of the extension would be beneficial for the Fund. He confirmed that whatever the outcome, there could be an impact on individual Fund members. Bridget Clark added that the exercise was focussing on the more complicated and valuable cases rather than the low value smaller cases
- Bridget Clark emphasised that every effort would be made to ensure that the work on the benchmarking of data quality did not impact on individual pension benefits
- In terms of data quality, the Pensions Regulator would be looking for a clear direction of travel set out in the Pension Fund Improvement Plan
- What data sets was the Fund required to use for comparison purposes? Bridget Clark indicated that the comparison was made against the set of data requirements provided by the Pensions Regulator. The exercise was concerned with ensuring that the Fund held correct and appropriate records. Michael Hudson added that the Fund would benefit from more accurate data being transferred into any new system as a result of this exercise
- Bridget Clark indicated that the Fund had appointed an Engagement Officer, Chris Frohlich who would commence his role on 26 October. It was intended to introduce him to the Committee at its next meeting
- The Fund should be making efforts to identify and share best practice with other funds, in particular in relation to a communications plan. Bridget Clark stated that the Fund was involved in partnership working with other Funds, particularly to improve communications. Michael Hudson added that there could be difficulties finding areas of commonality with other funds given the number and complexity of individual records however there were clear similarities to found in communications. The Administering Authority Communications Strategy would be brought to the December or March Committee meeting.

135 LGPS Central Update (Agenda item 6)

RESOLVED that:

- a) a tolerance level of £2 per week for the Guaranteed Minimum Pension (GMP) Reconciliation exercise be approved; and**
- b) the general update from the Administering Authority be noted.**

The Committee considered the LGPS Central update.

In the ensuing debate, the following principal points were raised:

- Rob Wilson indicated that an updated cost-sharing model should be available to report to the December or March Committee meeting
- In response to a query about the departing LGPS Central Chief Executive, Rob Wilson explained that it was felt appropriate that a new Chief Executive be appointed to move the Pooling arrangements forward. Philip Hebson added that there had been some disquiet amongst member funds that senior executives in the Pool lacked investment experience. In addition, it was felt that the Pool was not as engaged with member funds in this respect as it could be
- The senior executives at the Pool needed to understand that member Funds had control over the Investment Strategies and not vice-versa
- In response to a query, Rob Wilson explained that now that the Global Equities transition mandate had been completed, the Pool was re-running its business model. The outcome of this re-run would be reported to the next Committee meeting
- Was the transfer of assets from pension funds to the Pool on schedule? Rob Wilson responded that the transfer was taking longer than expected. Other Pools had acted faster but this could be because some funds initially transferred products that were easier to transition. It was anticipated that transition of all the assets would take 2-3 years to complete
- It was important to understand why the timetable for the transition of assets was behind schedule. Rob Wilson commented that one of the reasons was that there was a lack of understanding in the Pool of the Committee process and governance. It had been a learning experience for all sides. It was hoped that the process would speed up once

136 Pension Investment Update (Agenda item 7)

the transition of global equities had been completed

- What links had the Pool established with other Pools? Rob Wilson explained that there was a process for information sharing between pools and there was a cross pooling working group for which had partner fund representation
- In response to a query, Philip Hebson commented that there needed to be greater flexibility in the Pool to meet individual Fund's requirements especially in relation to investment styles. It was important that this Fund's asset allocation mix and nuances, downside protection and balance of risk was reflected in the structure of the Pool. Getting the investment structure right was more important than the speed of transition arrangements.

RESOLVED: that the LGPS Central Update be noted.

The Committee considered the Pension Investment update.

In the ensuing debate, the following principal points were raised:

- Rob Wilson commented that the performance of JP Morgan Emerging Markets and Bonds for the last quarter had been disappointing and therefore it was recommended that they be kept 'on watch'
- The performance of the investments in alternative markets had been better than expected
- Philip Hebson updated members on the performance of the global markets since the report was written. Through the 3rd quarter, UK and European markets were slightly down, the US and Japanese markets had improved but the Emerging markets were also down. The poor performance of JP Morgan was a particular concern, especially the impact on their long-term investment returns. A number of property and infrastructure investment funds had a finite life and similar to the approach taken to securing the Hermes II investment, due diligence would be undertaken on a second phase of investment with Venn and Walton Street. It was anticipated that the expertise of LGPS Central would be used in the future to undertake these due diligence exercises
- Philip Hebson commented that there was a

question mark over when the Triennial Valuation would take place and it was important to ensure that the date of the Valuation fitted in with the Fund's approach to the deployment of assets

- In response to a query, Rob Wilson indicated that LGPS Central had made very limited progress in transitioning infrastructure and housing investments. It should be noted that a number of partner Funds had no investments in this area however efforts were being made to speed up the transition of these assets
- In response to a query about investment in rail carriages, Philip Hebson commented that investment in the rail industry had been complicated by the risks associated with the national political situation.

RESOLVED that:

- a) The Independent Financial Adviser's fund performance summary and market background be noted;**
- b) The update on the Investment Managers placed 'on watch' by the Pension Investment Advisory Panel be noted; and**
- c) Delegated authority be granted to the Chief Financial Officer to commit an additional £25m to Hermes Fund II, a £30m commitment to Venn property fund II and a suitable commitment to Walton Street Fund II in the region of the current allocation, subject to appropriate due diligence being undertaken and sign-off by the Pensions Committee Chair.**

**137 Final External
Audit Report on
Pensions
Annual Report
2017/18
(Agenda item 8)**

The Committee considered the final External Audit Report on Pensions Annual Report 2017/18.

In the ensuing debate, it was agreed that no further reports were required on information contained in the Letter and there were no issues that the Committee wished to draw to the attention of Council.

RESOLVED: that

- a) The Annual Audit Letter 2017/18 be noted;**
- b) The Independent Auditor's Report opinion on the Pension Fund Financial Statements be**

noted; and

- c) **The External Auditor's closure of the audit of the Worcestershire County Council and Pension Fund Accounts Letter be noted.**

138 Government Actuary Department (GAD) Pension Fund Review Update (Agenda item 9)

The Committee received a verbal update on the Government Actuary Department (GAD) Pension Fund Review from the Chief Financial Officer.

The Chief Financial Officer explained that the GAD Pension Review final report had taken on board the Fund's suggested narrative to highlight that the funding position had improved since the 2016 valuation and an Equity Protection scheme had also been instigated. A formal report would be presented to the next Committee meeting.

RESOLVED that the general verbal update on the Government Actuary Department (GAD) Pension Fund Review be noted.

139 Training Programme (Agenda item 10)

The Committee considered the Pension Fund Training Programme for Pensions Committee members and Pension Board.

In the ensuing debate, the following principal points were raised:

- The Chairman thanked all those involved for setting up a successful training day held on 18 September 2018
- Michael Hudson welcomed feedback from Members on the September session and any future sessions
- A request was made that the next training session on the 18 December at 1pm be held in the Council Chamber rather than the Lakeview Room at County Hall, Worcester due to the poor acoustics in that room.

RESOLVED: that

- a) **The proposed Training Programme including the suggested timescales set out in the Appendix 1 to the report be approved;**
- b) **The feedback from the Pensions Training event on the 18 September 2018 attached as Appendix 2 to the report be noted; and**

140 Administration Budget 2018/19 (Agenda item 11)

- c) The overall outcome of the skills questionnaire completed by Pensions Committee members set out in Appendix 3 to the report be noted.**

The Committee considered the Worcestershire County Council Pension Fund Administration Budget 2018/19.

In the ensuing debate, the following principal points were raised:

- It was sensible to improve data quality although it should be recognised that there was a cost to this Fund of undertaking this work
- Increasingly fund managers were being requested to sign up to a code of transparency. It seemed sensible to have some form of narrative to explain how fees were determined. Michael Hudson added that this was a challenge for pension funds, particularly in relation to investments in emerging markets. The associated costs for this Pension Fund would be established and any changes would be reported to the Committee.

RESOLVED that:

- a) the Pension Fund Administration Budget for 2018/19 shown in the Appendix to the report totalling £9.931m be approved;**
- b) the indicative budget allocations for 2019/20 and 2021/21 be noted;**
- c) variations against budget will be monitored and reported to Committee on a regular basis; and**
- d) the Chief Financial Officer to the Pension Fund be granted delegated authority to approve variations up to £0.5m.**

141 Risk Register (Agenda item 12)

The Committee considered the Pension Fund Risk Register.

In the ensuing debate, the following principal points were raised:

- Pension funds needed to be aware of the Government Actuary's proposals in relation to local government pension risk. There was a danger that employers could be required to make an increased contribution which could present a

significant burden on pension funds and therefore council taxpayers. It was hoped that an agreement would be reached to mitigate the risk but in the meantime, the issue needed to be flagged up as a significant risk. Michael Hudson indicated that this issue had been raised at the County Councils Network and directly with HMRC. It was important that a response was made to the Government on behalf of the local government sector

- In response to a query about the timing of the Triennial Valuation, Michael Hudson anticipated that the Valuation was likely to take place next year which would be effective from April 2020 however a 5 year Valuation alignment exercise could be undertaken and therefore an interim Valuation might be necessary.

RESOLVED: that

- a) The Risk Register be approved and adopted for annual review;**
- b) The amber risks identified in the risk evaluation table within the Appendix to be report be particularly noted; and**
- c) An update to the Risk Register be provided to each future Committee.**

**142 Forward Plan
(Agenda item
13)**

The Committee considered the Forward Plan.

Rob Wilson explained that the Plan would be updated at every Committee meeting.

RESOLVED that the Forward Plan be approved and reviewed at each Committee meeting.

The meeting ended at 11.50am.

Chairman