

Pensions Panel

25 July 2018 – At a meeting of the Pensions Panel held at 10.00 am at County Hall, Chichester.

Present: Mr Hunt (Chairman)

Mr Bradford, Mrs Dennis, Mr Elkins, Mr Jupp, Mrs Urquhart, Dr Walsh, Mr Donnelly and Ms Taylor

Part I

58. Declarations of Interests

58.1 Mr Hunt declared a personal interest as the Chairman of Chichester Harbour Conservancy.

59.1 Mr Donnelly declared a personal interest as a substitute member of the Sussex Police and Crime Panel.

59. Part I Minutes of the last meeting

59.1 The Panel queried the progress on joint training arrangements with the Pension Advisory Board. – *Steve Harrison reported that the arrangements were being worked on by officers and would be discussed at the following Panel meeting.*

59.2 Resolved - that the Part I minutes of the Pensions Panel held on 30 April 2018 be approved as a correct record, and that they be signed by the Chairman.

60. Investment Strategy Statement

60.1 The Panel considered a report by the Director of Finance, Performance and Procurement (copy appended to the signed minutes).

60.2 Rachel Wood introduced the report and highlighted the draft Investment Strategy Statement appendix which included an annex on investment beliefs. The strategy also included Growth, Income and Protection (GrIP) framework.

60.3 The Panel queried when Partners Group would be attending a meeting. – *Mr Hunt explained that this would be happening in November. Due to the AGM meeting in the afternoon, there was not enough time on the current agenda.*

60.4 The Panel asked what level the fund was at. – *Steven Law confirmed that the funding level was in the 110% region.*

60.5 in respect of voting guidelines, the Panel queried incentive packages and if a limit should be considered. – *Mr Hunt felt that the Panel should stand by the Fund Managers conviction on corporate governance as issues including levels of remuneration could impact on the return from*

investments. The Panel queried if 'proportional' could be used within the guidelines rather than 'viable' for incentive arrangements. Mr Hunt explained that these were guidelines and should not be too prescriptive.

60.6 The Panel queried the wording in the statement relating to private equity allocation. – *Steve Harrison explained that the wording was consistent with the current approach and that the Fund had not made any recent or further commitments to the asset class. The Panel proposed adding 'currently' to the strategy to clarify the position; 'Private Equity: The Fund's allocation to private equity is currently being wound down and therefore not currently within the strategic allocation.'*

60.7 Resolved – That the Panel agrees the Investment Strategy Statement subject to the amendment in minute 60.6.

61. Pension Administration Update

61.1 The Panel considered a report by the Director of Finance, Performance and Procurement (copy appended to the signed minutes).

61.2 Steve Harrison introduced the report which provided an update on pension administration since the last panel meeting. A report had gone to the Performance and Finance Select Committee which recommended a change in pension administration provider. This was followed by a decision by the Cabinet Member for Finance and Resources to move the provision to Hampshire County Council.

61.3 Officers were looking into the major task to move all the records over to Hampshire County Council. Progress on the project would be reported back to the Panel.

61.4 The Committee made comments including those that follow.

- Raised concerns on Capita's performance commitment until the end of the contract. – *Steve Harrison explained that officers would be working with Capita to ensure performance was maintained. The terms of Capita's contract remained until the provision was moved to Hampshire County Council. Mr Hunt agreed to discuss the terms of the contract with Katharine Eberhart.*
- Queried the volatility of performance figures between months. – *Mr Hunt explained that police transfer work had had a large impact for Capita. Rachel Wood confirmed that the police transfer was now complete.*
- Questioned the communication plan for informing fund members. – *Steve Harrison confirmed that a communication plan was included within the project scope.*
- Sought reassurance on the migration for records and the contingencies that were in place. – *Steve Harrison reported that there was regular weekly contact with the administration manager and senior partner on this process. Some identified issues with IT had already been resolved. Once a clear plan had been agreed with Hampshire County Council the process for the transfer would be mapped out. Additional resources could be utilised for this if*

required. Mr Hunt agreed to bring a high level update to the next meeting.

61.5 Resolved – that the update be noted.

62. Annual Report and Accounts

62.1 The Panel considered a report by the Director of Finance, Performance and Procurement (copy appended to the signed minutes).

62.2 Steve Harrison introduced the report and highlighted the significant growth of members to the fund which had been driven by academisation.

62.3 The Regulation, Audit and Accounts Committee had recently considered the Pension Fund accounts. Ernst and Young, the external auditor, had made minor comments during their audit which officers had taken on board.

62.4 The Committee made comments including those that follow.

- Highlighted some inaccuracies with the training log and the lack of detailed recognition for previous training. – *Steve Harrison resolved to correct any inaccuracies within the annual report for training attendance and improve the section for previous training.*
- Queried why the Pension Advisory Board attendance was only looking at two meetings. – *Rachel Wood explained that the March meeting had moved to April due to poor weather conditions. The total was looking at the meetings that had taken place within the 2017/18 municipal period.*
- Asked why the estimate cost for Administration and Management Costs were very different to the actual cost. – *Rachel Wood explained that the actual figure included Baillie Gifford's performance fee. Steve Harrison resolved to confirm this.*
- Felt that the section for Caroline Burton should include background information to assist external readers in understanding Caroline's role.
- Queried the figures for stock lending. – *Rachel Wood confirmed that of the £200,000 income, £45,000 was fees which meant £155,000 was the net figure. Steve Harrison confirmed that the accounts included the correct figure and that the annual report would be updated accordingly.*
- Praised the annual performance and congratulated the officers, actuary and fund managers.

62.5 Resolved – That the Panel:

(1) Agrees the Annual Report, subject to the discussed amendments.

(2) Notes the Statement of Accounts appended to the Annual Report.

(3) Notes the items raised by the external auditors.

63. Actuarial Update

63.1 Steven Law gave a presentation to the Panel (copy appended to the signed minutes).

63.2 Steven Law outlined the change in legislation for exit credits. Previously, any surplus following cessation would remain within the fund. Following May, any surplus will be returned to the employer.

63.3 Legislation changes also meant the actuary had to perform exit calculations as soon as the last active member left an employer to determine whether a surplus exists. This would have an impact on Town and Parish Councils who could have one clerk employee, as cessation calculations would be immediately required between clerk appointments, rather than being suspended pending any new eligible members joining the Scheme which will add actuarial costs.

63.4 The tax implications of paying back a surplus have not been confirmed. - POST MEETING CLARIFICATION: LGA has confirmed no tax is payable.

63.5 Steven Law also spoke on the updates for the Funding Strategy Statement. Suspension notices would no longer be issued if there were no actives for an employer where a surplus is identified. The option to issue a suspension notice will remain where a deficit is identified. Work was underway to consider the administration costs for this for the fund. Flight plans would be utilised to manage the risks of a surplus emerging.

63.6 It was proposed to hold an informal Pensions Panel to discuss the impact to the investment strategy.

63.7 The Committee made comments including those that follow.

- Queried how the legislation changes may impact the fund stability. – *Steven Law explained that he would continue to use Gilts basis for employers with no guarantor – no change. However, further management may be required to control potential surpluses and the cash balance of the Fund. New admitted bodies would be underwritten and so have no impact.*
- Sought clarity on the different levels of surplus/deficits for admitted bodies. – *Steven Law explained that bodies that had no backer would be calculated on a stricter basis. Other bodies had large time frames and so investments would be used to help deficits.*
- Asked how the fund could become cashflow negative. – *Steven Law explained that this happened if the fund was paying out more than the contributions received. Rachel Wood added that the fund received income from investment mandates which gave the fund more breathing space.*
- Queried how the fund was insulated from the different financial positions of academies. – *Steven Law explained that if an academy experienced financial difficulties it would either be transferred to a new Multi-Academy Trust or go under. A new Multi-Academy Trust would take on the old position; if the academy went under the Department of Education would underwrite the deficit.*
- Asked who paid the valuation and cessation fees for Parish Councils. – *Steven Law explained that this would be netted from the asset*

position. Whilst a surplus would be payable within three months of the exit date, if a deficit was identified, there is a discretion to allow employers to be given a suspension notice which would give a plan on payment timing.

- Queried if all Parish Councils could be merged in the fund. – Steven Law confirmed that the regulations did not allow this.

63.8 Steven Law gave an update on the Government Actuary Department (GAD) valuation which had put a red fail flag on the pension fund for increased costs for funding level reductions if there were a shock to the Fund's growth assets. The actuary has lobbied GAD that raising costs would not be necessary for the Fund due to the already high funding level and changes to the Fund's investment strategy. GAD have agreed to remove the flag.

63.9 The Panel welcomed the update and agreed to have an informal meeting on the 12 September to discuss the investment strategy.

64. Date of the next meeting

64.1 The Panel noted that its next scheduled formal meeting would take place on 1 November 2018 at 10.00 a.m. at County Hall, Chichester.

65. Exclusion of Press and Public

65.1 Resolved - That under Section 100(4) of the Local Government Act 1972, the 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 Part I, of Schedule 12A, of the Act by virtue of the paragraph specified under the item and that, in all the circumstances of the case, the public interest in maintaining the exemption of that information outweighs the public interest in disclosing the information.

66. Part II Minutes of the last meeting

The Panel agreed the Part II minutes of the Pensions Panel held on 25 July 2018.

67. ACCESS Pooling Update

The Panel considered a report by the Director of Finance, Performance and Procurement and also received a presentation on from John Wright, Hymans Robertson.

The Panel thanked John Wright for the update.

68. Review of Pension Performance

The Panel considered a paper by the Director of Finance, Performance and Procurement.

The Panel received an update from Caroline Burton, Independent Adviser, relating to the quarterly reports from the fund managers.

The Panel welcomed the advice.

69. Presentation by Baillie Gifford

The Panel received an update from Lynn Dewar and Susan Swindells from Baillie Gifford on the portfolio performance for the quarter.

The meeting ended at 12.48 pm

Chairman