

PENSION BOARD

MINUTES of a meeting of the Pension Board held at County Hall, Lewes on 3 November 2016.

PRESENT Richard Harbord (Chair), Councillor Kevin Allen,
Angie Embury, Bernadette Carlyle and
Councillor Brian Redman

ALSO PRESENT Councillors David Elkin, Lead Member for Resources
Councillor Richard Stogdon, Chair of the Pension Committee
Phil Hall, Interim Chief Finance Officer
Brian Smith, Regional Operations Manager
Jason Bailey, Pension Services Manager
Phil Hall, Interim Chief Finance Officer
Wendy Neller, Pensions Strategy and Governance Manager
Ola Owolabi, Head of Accounts and Pensions
John Shepherd, Finance Manager (Pension Fund)

20 MINUTES

20.1 The Board agreed that the minutes were a correct record of the meeting held on 4 August 2016.

21 APOLOGIES FOR ABSENCE

21.1 Apologies for absence were received from Sue McHugh.

21.2 The Chair welcomed Bernadette Carlyle as the new employee representative of the Board.

22 DISCLOSURE OF INTERESTS

22.1 There were none.

23 PENSION COMMITTEE AGENDA

23.1 The Board considered a report on the Pension Committee's agenda for its 30 November meeting.

23.2 In reference to **Item 8: LGPS Pooling – ACCESS Update**, The Chair asked what the cost of the Local Government Pension Scheme (LGPS) pooling programme had been to the East Sussex Pension Fund (ESPF). Ola Owolabi (OO), Head of Accounts and Pensions, said that the agreed expenditure was £150,000 over three years, although this figure did not include officer time. The cost of involving Eversheds was expected to cost around £5,000, which will be shared equally across the 11 pension funds in the ACCESS group.

23.3 Angie Embury (AE) asked what the Government was contributing towards the pooling programme. OO said that the Government will not be committing any financial resources to assist funds. The Government had asked all 89 funds to agree pooling arrangements amongst themselves with the anticipation that the process would ultimately save the funds money – and

with the expectation that funds would set out how they would allocate a proportion of the pooled investment into infrastructure projects. AE said she would raise this issue with Unison.

23.4 The Chair commented that there had been recent developments that suggested some pension funds were becoming concerned about the pooling process; any legal challenges from individual funds could complicate and delay the process.

23.5 The Chair added that the Treasury has delegated the responsibility for implementing the pooled funds programme to the Department for Communities and Local Government (DCLG), and the deadline for the Government green lighting the pooling plans had already passed. He said that pension funds were right to be cautious about avoiding extra expenditure before the green light. OO added that representatives of each pooling group had met with the Treasury and one of the reasons for the delay in getting a response from the Government was due to resources being directed towards the Brexit negotiations.

23.6 OO said that the ACCESS Chairs would be meeting with the Minister of State for Pensions in November to seek reassurance that the ACCESS fund July submission would be approved/authorised by the Government. Councillor Brian Redman (BR) expressed concern that the Pension Committee was expected to agree the ACCESS structure on 30 November when it had not yet been authorised by the Government. Councillor Richard Stogdon (RS), Chair of the Pension Committee, said that ACCESS Chairs did not intend to agree the plans locally if they were not given the Government green light. OO added that the individual funds would not commit any more significant resources without the go ahead from the Minister.

23.7 The Chair reflected that it was unfortunate that the fundamental reason for pooling funds had been to save money but the projected savings from ACCESS are yet to be fully substantiated.

23.8 The Board RESOLVED to:

1) note the report; and

2) express concern about the lack of clarity around the Government's position on authorising investment pools.

24 LGPS MANAGEMENT & INVESTMENT OF FUNDS REGULATIONS 2016 AND INVESTMENT STRATEGY STATEMENT (ISS) GUIDANCE

24.1 The Board considered a report on the LGPS Management & Investment of Funds Regulations 2016 and Investment Strategy Statement (ISS).

24.2 The Chair observed that the Secretary of State's Power of Direction to intervene in the investment function of an Administering Authority is most likely to be exercised on pension funds identified by the DCLG as the worst performing or where authority's investment functions is failing to act in accordance with guidance issued under regulation.

24.3 The Board RESOLVED to note the report.

25 PENSION FUND RISK REGISTER

25.1 The Board considered a report providing an update on the Pension Fund Risk Register.

25.2 Councillor Brian Redman (BR) asked whether the risk "Employers unable to pay increased contributions" would always remain as a 'red' risk. Phil Hall (PH), Interim Chief Finance Officer, said that it would remain so for the short term but the long term aim is to achieve full funding for the ESPF and this would reduce the pressure on employers. The Chair said that the risk would be mitigated, to a certain extent, once the Fund's actuarial valuation was complete and the employer contribution rates have been set. He said there was no evidence of great stress amongst employers as none of them were in arrears.

25.3 The Board RESOLVED to note the report.

26 INTERNAL AUDIT REPORT - PENSION FUND GOVERNANCE AND INVESTMENTS

26.1 The Board considered a report on the Internal Audit report carried out on Pension Fund Governance and Investments.

26.2 The Chair asked for clarification about what the purpose of the Pension Administration Strategy (PAS) was. Wendy Neller (WN), Pension Strategy and Governance Manager, said that the PAS will set out the roles and responsibilities of the ESPF and its employers. It will combine all existing strategies that explain how the Fund operates, for example, the communications strategy and funding strategy, and will sit alongside the Pension Investment Strategy (which sets out how the Fund invests its members' contributions).

26.3 BR asked whether the Fund's external auditors would need to report on the missed statutory deadline for distributing Annual Benefit Statements. OO explained that the external auditor – KPMG – would not consider a missed statutory deadline in its audit, as the agreed process is for statutory deadlines to be reported to the Pension Regulator. PH added that external auditors are concerned by the integrity of the ESPF accounts and a missed statutory deadline is unlikely to be something that they look at.

26.4 The Board RESOLVED to:

1) note the report; and

2) congratulate the Pension Fund officers on achieving 'full assurance' from the internal audit team.

27 FUNDS ACTUARIAL VALUATION REPORT - DRAFT RESULTS

27.1 The Board considered a report on the draft results of the ESPF Actuarial Valuation.

27.2 BR expressed concern that the new valuation of the Pension Fund expected salaries to grow by only 2.6% -- compared to an estimated 4% increase in the previous triennial valuation – and that this accounted for the majority of the estimated funding level increase from 81% in 2013 to 92% in 2016. He considered that inflationary pressures would make it unlikely wages would only increase by 2.6% and questioned why the actuary had not foreseen them. Councillor Kevin Allen also questioned on what basis this estimate was made.

27.3 The Chair suggested that the timing of the valuation was unfortunate (coming just before the emergence of potential inflationary pressures) but by law it had to be a snapshot of the Fund at a particular moment in time (31 March 2016) and was based on circumstances facing the fund over the previous three years, rather than potential future pressures. PH added that assets were performing well at the time of the valuation, and in the last couple of months it is likely that the funding level would have nudged downwards in response to asset performance. PH said that it was reasonable to assume wages would increase but would be tempered by public sector pay freezes, and the move towards an increasing number of career average pensions – which would have less impact on future pension payouts.

27.4 The Chair asked what percentage of scheme members had taken up the 50/50 option – which is identified by the actuary as a risk. WN said that 2% of ESPF scheme members had chosen this option (of paying half the contribution level in return for building up half the normal pension) compared to 0.1% nationally.

27.5 PH said that there would be an opportunity for employers to question the actuary's (Hymans Robertson's) methodology at the Employers Forum in November. Ultimately, the valuation would be the actuary's decision as it is their professional judgement. However, they invite stakeholders to challenge their assumptions and they have been open about their methodology used to reach these assumptions. RS had been in a meeting of Pension Committee Chairs where the actuary had responded robustly to challenges to its assumptions.

The Chair said that Hymans Robertson was also the actuary of Harrow Pension Fund but their assumptions were different, demonstrating that there was no standardised approach.

27.6 OO said that the expected market volatility between 2017/18 -2019/20 would mean it was unrealistic to expect the funding level to remain at 92%, which was based on market performance since 2013 valuation. The Chair observed that funding levels had previously reached 100% and the Government had authorised a pension holiday; the six pension funds now performing the worst had all chosen to declare a pension holiday at that time, demonstrating that it was not a good idea.

27.7 The Board RESOLVED to note the report.

28a OFFICERS' REPORT - BUSINESS OPERATIONS

28a.1 The Board considered a report providing an update on the performance of the Business Operations team responsible for administering the ESPF.

28a.2 The Chair asked for the Pension Board to be provided with an annual report containing the details of administrative complaints against the ESPF, for example, those reported to the Local Government Ombudsman (LGO). WN said that this ombudsman referrals are contained in the annual CIPFA benchmarking analysis report that is already provided to the Board. To date no scheme member appeal decisions by the ESPF have been overturned by the LGO.

28a.3 Angie Embury (AE) asked how scheme members would access their Annual Benefit Statement if they were no longer being printed and posted from 2017. Jason Bailey, Pension Services Manager, said that scheme members would be able to view their statement via a new, encrypted scheme member portal. The portal would reduce the complex production and lengthy printing time for the Annual Benefit Statement, potentially saving three weeks in the process. Exceptions would be made for those scheme members without internet access.

28a.4 The Chair said that he recognised that there were unique challenges in producing the statements in an actuarial year and so looked forward to the Statements being completed on time in 2017.

28a.5 The Board RESOLVED to note the report.

28b OFFICERS' REPORT - GENERAL UPDATE

28b.1 The Board considered a report providing a general update on issues relating to the ESPF.

28b.2 BR asked why there was a -4.1% variation in the cash flow from employer contributions. OO said that his team will look into the reason and would be able to provide analysis soon. The projected outturn is a snapshot of the cash projection as at 30 September 2016 and is expected to have changed by the end of the financial year.

28b.3 The Board RESOLVED to note the report.

29 FORWARD PLAN

29.1 The Board considered a report containing its forward plan and future training days.

29.2 The Chair recommended that Board Members take the opportunity to attend some of the free courses listed in the forward plan.

29.3 The Board RESOLVED to note the report.

30 ANY OTHER BUSINESS

30.1 There was none.

31 EXCLUSION OF THE PRESS AND PUBLIC

31.1 The Board RESOLVED to exclude the press and the public from the meeting for the remaining items of the agenda on the grounds that if the public and press were present there would be disclosure to them of exempt information as specified in Category 1 of Part 1 of Schedule 12A to the Local Government Act 1972 (as amended), namely information relating to any individual; and Category 3 of Part 1 of Schedule 12A to the Local Government Act 1972 (as amended), namely information relating to the financial or business affairs of any particular person (including the authority holding that information).

32 PENSION COMMITTEE AGENDA

32.1 The Board considered the exempt item on the agenda for the 30 November Pension Committee meeting.

32.2 The Board RESOLVED that the recommendation of the report seemed prudent.

The meeting ended at 11.42 am.

Richard Harbord
Chair