

MINUTES of the meeting of the **SURREY LOCAL PENSION BOARD** held at 10.00 am on 19 October 2016 at Member's Conference Room, County Hall, Kingston upon Thames, Surrey KT1 2DN.

These minutes are subject to confirmation by the Board at its meeting on 15 March 2017.

Members:

(* = present)

- * Paul Bundy
- * Mr Nick Harrison (Chairman)
- * Tina Hood
- * Mr John Orrick (Vice-Chairman)
- * Paresh Rajani
- * David Stewart
- * Claire Williams-Morris
- * Trevor Willington

In attendance

Jason Bailey, Pensions Lead Manager, Shared Services
Neil Mason, Senior Advisor (Pension Fund), Finance
Alex Moylan, Senior Accountant, Finance
Phil Triggs, Strategic Finance Manager, Finance

33/16 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

No apologies were received.

34/16 MINUTES FROM THE PREVIOUS MEETING: 4 JULY 2016 [Item 2]

The minutes were agreed as an accurate record of the meeting.

35/16 DECLARATIONS OF INTEREST [Item 3]

Trevor Willington asked that it be noted that he was no longer a governor at Nescot College, which is an employer in the scheme.

David Stewart asked that it be noted that he was employed by Hammersmith and Fulham, an authority whose pension administration is provided by Surrey County Council as part of the Orbis Partnership

36/16 QUESTIONS AND PETITIONS [Item 4]

There were none.

37/16 ACTION TRACKER [Item 5]

Declarations of interest:

None.

Witnesses:

Neil Mason, Senior Advisor, Finance

Alex Moylan, Senior Accountant, Finance
Phil Triggs, Strategic Finance Manager, Finance

Key points raised during the discussion:

1. The Chairman noted that the Board had agreed to review the use of substitutes. The consensus was this was not appropriate, given the training and knowledge requirements and difficulty in identifying appropriate substitutes (ref: action 4/15). The action would be marked as complete.
2. It was confirmed that there was no update regarding the Scheme Advisory Board Key Performance Indicators (ref: action 9/16).
3. The Board was informed that the regulations and code of practice had seen no change since the Counsel opinion regarding the status of local pension boards (ref: action 13/16).
4. The Board agreed to remove action 22/16 as this was now a standing process.
5. It was confirmed that there was a meeting planned with other local authorities to examine Additional Voluntary Contributions arrangements, and this would be updated at a future meeting (ref: action 26/16)

Recommendations:

None.

Actions/further information to be provided:

None.

38/16 FORWARD WORK PROGRAMME [Item 6]

Declarations of interest:

None.

Witnesses:

Neil Mason, Senior Advisor (Pension Fund), Pensions and Treasury
Alex Moylan, Senior Accountant, Finance, Pension Fund and Treasury
Phil Triggs, Strategic Finance Manager

Key points raised during the discussion:

1. The Board reviewed its forward work programme. The Board was informed that the Pension Committee had requested a report on the impact of the American election and EU referendum on asset allocation, and that this would be reported on 11 November 2016.

Recommendations:

None.

Actions/further information to be provided:

The Pension Fund Committee report on asset allocation in light on events in 2016 to be circulated to the Board.

39/16 UPDATE OF PENSION FUND COMMITTEE MEETINGS: 11 JULY 2016 AND 23 SEPTEMBER 2016 [Item 7]

Declarations of interest:

None.

Witnesses:

Neil Mason, Senior Advisor (Pension Fund), Finance

Alex Moylan, Senior Accountant, Finance, Finance

Phil Triggs, Strategic Finance Manager, Finance

Key points raised during the discussion:

1. The Board was provided with an update on the 23 September 2016 meeting of the Committee. The Committee had been informed of a change in the Board's funding level to 86.3%, as result of changes in the assumptions around future salary growth, Consumer Price Index (CPI) future pension growth and the discount rate. Officers highlighted that this did not take account of the County Council implementing a new Pay and Reward Strategy in June 2016.
2. The Board was informed that the Committee had reviewed asset allocation due to a manager allocation variance of 3.5%, which was outside the tolerance threshold set in the asset allocation policy. The Committee had taken the decision to rebalance the portfolio in light of this:
 - Marathon (Global) -2.7%
 - Legal and General (UK) +1.7% (£60 million)
 - Majedie (UK) +1% (£30 million)
3. The Board discussed the performance of fund managers. It was noted that it was considered good practice to keep within the asset allocation policy guidelines, rather than pursue short-term high performance. Officers outline that it had been a good year in terms of performance for the fund, with it still ahead of the Fund's target benchmark.
4. The Board was informed that the Committee had agreed an investment of \$50 million in a private equity partnership focusing on secondary markets with Goldman Sachs. Officers outlined that the Fund had made a previous investment in 2011 of \$40 million in an earlier version of the package known as Vintage VI. This had been judged to have performed well. The Board commented that the Fund had previously under invested in the private equity market, and it was confirmed by officers that this was addressed moving to 4.7% of the Fund's portfolio.
5. The Board was informed that the Fund's 2015/16 accounts had been approved. Officers highlighted that the Statement of Investment Principles was being phased out by April 2017 and replaced by an

Investment Strategy Statement. This was undertaken following the actuarial valuation, and it was expected to be taken to the Committee for decision in February 2017. The Chairman raised a question as to whether the new strategy would cover environmental, social and governance considerations, it was confirmed that this would be the case.

6. The Board discussed two consultations being undertaken by central government, one covering insolvency arrangements for Further Education Colleges and the other making changes to the LGPS scheme in order to embed "fair deal" regulations. Officers outlined a number of details regarding the consultation responses from the Council.

Recommendations:

None.

Actions/further information to be provided:

The draft minutes of the Committee meeting on 23 September 2016 to be circulated to the Board.

The details of the two consultations and the Council's response to be circulated to the Board.

40/16 2016 ACTUARIAL VALUATION ASSUMPTIONS [Item 8]

Declarations of interest:

None.

Witnesses:

Neil Mason, Senior Advisor (Pension Fund), Finance

Alex Moylan, Senior Accountant, Finance

Phil Triggs, Strategic Finance Manager, Finance

Key points raised during the discussion:

1. The Board noted that the title of the report was incorrect, and should read '2016 Actuarial Valuation Assumptions'.
2. The Board discussed the change in member longevity, and whether this reflected a national or Surrey specific trend. Officers commented that any assumption reflected the profile of Fund members, as longevity was calculated using individual member postcode data.
3. The Board questioned how the separate elements of the valuation assumption had influenced the improvement in the funding level up from 69.3% to 86.3%. Officers outlined that a reduction in the gilt yield had an inverse impact on the funding level. It was explained that the increase was attributable to changes in the following:
 - A reduction in the projected salary increases (impact of 2%)
 - An reduction in the projected pension increases (impact of 2.5%)

- An increase in the expected return above gilt yield (impact of 6%)
 - A change in the methodology for calculating the discount rate (impact of 6.5%)
4. It was noted that the current funding level figure was an estimation, and that the initial results of the valuation would be available on 4 November, in time for the Committee meeting on 11 November 2016.
 5. The Board queried the rationale for changing the methodology for calculating the discount rate. Officers highlighted that the Fund had been the first local authority client to ask Hymans to adopt this methodology, and it was anticipated that it would become more common in the future. It was commented that this was a decision that had been considered at length by the Committee with a number of reports being produced over a nine to twelve month period. It was felt that new methodology would prove more responsive to the changing economy, and better reflected the driver of fund liabilities.. It was also noted that the Government Actuarial Department (GAD) also used a CPI based methodology, and that this had influenced the Committee's decision.

Resolved:

The Board **noted** the contents of the report.

Actions/further information to be provided:

None.

41/16 ANNUAL BENEFITS STATEMENTS [Item 11]

Declarations of interest:

None.

Witnesses:

Jason Bailey, Pensions Lead Manager, Shared Services
 Neil Mason, Senior Advisor (Pension Fund), Finance
 Alex Moylan, Senior Accountant, Finance
 Phil Triggs, Strategic Finance Manager, Finance

Key points raised during the discussion:

1. This agenda item was taken out of order as witnesses had arrived for this item.
2. The Board was provided with the context of the report, including the delay in producing 2014/15 annual benefits statements. It was explained that the Pensions Regulator had agreed that funds would not be penalised for this delay, and only a couple of funds had suggested they had issued their annual benefits statements in time for the August 2015 deadline.
3. Officers informed the Board that the 2015/16 statements had not been issued in line with the August 2016 deadline. Statements had been

produced by mid-September for active members. Officers commented that the cause of this delay was related to the workload of associating and validating year-end returns, and the timing of the triennial valuation of the pension fund. It was noted that this had not been reported to the regulator as it was not considered a material breach. This view had been taken as no members had contacted the Pension Service regarding the statements, and there was considered to be no material impact as a result of the delay.

4. The Board discussed the breach, and highlighted that the Pension Regulator had emphasised the need to meet the August 2016 deadline, in view of the widespread failure of local authority funds to meet the August 2015 deadline. In compliance with the draft breaches policy, which was due to be discussed in the meeting, the Board recommended that the breach should be reported to the regulator, although noted this would not normally be regarded as material.
5. The Board discussed the transition arrangements to an electronic annual benefits statement for active members in 2017. It was felt that this would mitigate the logistical challenge of producing the statements in time. Officers confirmed that all employers in the Fund had been asked to supply email addresses for each active member as part of the 2016 year-end returns in preparation for the launch of member self-service and the issue of electronic statements.
6. The Board raised concerns that the electronic statement would not be appropriate for all active members, particularly if there were issues with internet access. It was confirmed that the Pension Service would continue to provide a paper statement where requested by the employer but that experience from other areas (e-payslips) suggested most local government staff now had internet access.
7. The Board was informed that deferred members would be notified in 2017 of the intention to transfer them to electronic annual benefits statements in future and asked to register for this. Officers highlighted that non-respondents would continue to receive paper statements.

Resolved:

The Board **noted** the contents of the report.

Recommendations:

That the delay in providing annual benefits statements be reported to the regulator in line with the draft Breaches Policy process.

Actions/further information to be provided:

An update report on the transfer to online annual benefit statements to be provided to the Board.

42/16 KEY PERFORMANCE INDICATORS [Item 12]

Declarations of interest:

None.

Declarations of interest:

None.

Witnesses:

Jason Bailey, Pensions Lead Manager, Shared Services

Neil Mason, Senior Advisor (Pension Fund), Finance

Alex Moylan, Senior Accountant, Finance, Finance

Phil Triggs, Strategic Finance Manager, Finance

Key points raised during the discussion:

1. This agenda item was taken out of order as witnesses had arrived for this item.
2. Officers introduced the report by highlighting the more detailed metrics that had been included following a request from the Board. The Board highlighted that the information provided still needed to include the appropriate statutory targets where relevant.
3. It was noted that the figures reflected prior concerns reported to the Board about the initial engagement with retiring members. It was noted that the quarter two Key Performance Indicators (KPIs) was expected to show a modest improvement in the areas of concern, and officers anticipated a more substantial improvement in quarter three.
4. The Board was informed that in some cases the lengthy delays in initiating contact with scheme members could be because employers had not notified the Pension Services team in advance of a member retiring, however there were also cases of genuine delay. It was queried whether the distribution of different employers in such a scenario could be presented as part of the KPIs. Officers commented it was difficult to capture trends of poor performance in employer notifications in this context, though this was something that would be included in the forthcoming administration strategy. It was noted that there were instances where the county council had been late in notifying the Pension Service of retirement, though the majority of late notifications were from other employers within the fund.
5. The Board was informed that a dedicated pension fund administration team had been established for the Surrey LGPS Fund. This was in response to the Board's prior concerns about the impact that undertaking pension administration for other funds could have on performance.
6. The Board discussed actions taken to improve workflow. This included a new dashboard facility that would improve oversight of workflow. The Chairman suggested that the Board visit the Pension Service team as part of a training opportunity.

Resolved:

The Board **noted** the contents of the report, including the current performance issues related to transfers in and retirements.

It further noted that improvement is anticipated in quarter 2 and quarter 3 of 2016/17 and anticipates evidence of this in future reports.

Actions/further information to be provided:

The Board to visit the Pensions Services team.

43/16 CUSTOMER SERVICE REPORT: QUARTER 2 2016/17 [Item 13]

Declarations of interest:

None.

Witnesses:

Jason Bailey, Pensions Lead Manager, Shared Services
Neil Mason, Senior Advisor (Pension Fund), Finance
Alex Moylan, Senior Accountant, Finance
Phil Triggs, Strategic Finance Manager, Finance

Key points raised during the discussion:

1. This agenda item was taken out of order as witnesses had arrived for this item.
2. The Board was informed that the new internal customer service monitoring process had commenced from 1 July 2016. It was expected that the number of interactions recorded would increase as the process became more embedded. Officers commented that it could be difficult to distinguish a complaint from dissatisfaction with the provisions of the LGPS, and highlighted that the pension administration team would be looking to categorise comments and complaints as the process developed.
3. The Board raised a query as to the number of complaints investigated within the target response time. It was noted that the team had been unclear on the process, and that the Pensions Lead Manager would expect to see an improvement in future reports. It was the case that the policy set out that a response would be given within five working days, with full resolution in ten working days.

Resolved:

The Board **noted** the contents of the report.

Actions/further information to be provided:

None.

44/16 DRAFT BREACHES POLICY - WORK IN PROGRESS [Item 10]

Declarations of interest:

None.

Witnesses:

Jason Bailey, Pensions Lead Manager, Shared Services
Neil Mason, Senior Advisor (Pension Fund), Finance
Alex Moylan, Senior Accountant, Finance, Finance
Phil Triggs, Strategic Finance Manager, Finance

Key points raised during the discussion:

1. The Chairman highlighted that the Board members should be conversant with the principles of the breaches policy as a result of the training they had undertaken. It was noted that the policy was a work-in-progress and the Board was invited to comment, prior to it being considered by the Pension Fund Committee on 11 November 2016.
2. The Board noted the content and raised a few points of clarification. It was confirmed that the breaches log would be reported to the Local Pension Board on a regular basis.
3. The Board queried what the possible consequences of a breach may be. Officers outlined that it would depend on the nature of the breach, though this may result in an internal review. It was noted that the regulator had the power to impose a fine or intervene where significant material breaches were identified. The Board highlighted that fines were publicly reported by the regulator, and this could have considerable reputational damage for the fund.
4. The Board proposed that the wording under 'Effect' in annex 2 was expanded to include the Pension Fund Committee and officers.
5. The Board discussed the process by which a likely breach might be considered by the Chairmen of the Local Pension Board and the Pension Fund Committee. It was suggested that this was altered to allow a more expedient consideration by the two Chairmen within a month of the likely breach being reported, with the decision being reported to the Local Pension Board at its following meeting.

Resolved:

The Board **noted** the contents of the report.

Actions/further information to be provided:

Officers to update the breaches policy to take into account the Board's suggestions prior to presenting it to the Pension Fund Committee for consideration of approval at their meeting of 11 November 2016.

45/16 EMPLOYER ACCOUNTING VALUATIONS [Item 9]**Declarations of interest:**

None.

Witnesses:

Neil Mason, Senior Advisor (Pension Fund), Finance
Alex Moylan, Senior Accountant, Finance, Finance

Phil Triggs, Strategic Finance Manager, Finance

Key points raised during the discussion:

1. The Board was informed that the employer accounting valuations were set in compliance with one of two accounting standards. This produced a prudent accounting valuation. Officers cited the example of further education colleges, where the discount rate had been between 2.4 – 2.6%. This reflected a steady decline in government bond yields, which had formed the basis of these standards.
2. The Board commented that these valuations caused concern for employers when reported, though it was also highlighted that it made no impact on contributions. The Board confirmed that salary assumptions were made on the basis of a common rate decided by the Pension Fund Committee.

Resolved:

The Board **noted** the contents of the report.

Actions/further information to be provided:

None.

46/16 RISK REGISTER [Item 14]

Declarations of interest:

None.

Witnesses:

Neil Mason, Senior Advisor (Pension Fund), Finance

Alex Moylan, Senior Accountant, Finance

Phil Triggs, Strategic Finance Manager, Finance

Key points raised during the discussion:

1. Officers highlighted that following a training session on 12 October 2015, it had been proposed that the Board review the risk register on an annual basis. The Board was informed that the only change was an additional risk included regarding breaches (risk ref 19). The Board was asked to note that this risk was treated partly through the proposed breaches policy.
2. The Board highlighted the pay and price inflation as posing a significant risk to the Fund, particularly in light of the market response to the European referendum. It was noted that the Pension Fund Committee would be having training on the likely impact of events in 2016 on the Fund, and Local Pension Board members were able to attend.

Resolved:

The Board **noted** the contents of the report.

Actions/further information to be provided:

Details of the Pension Fund Committee training to be circulated to the Board.

47/16 BOARD ANNUAL REPORT 2015/16 [Item 15]

Declarations of interest:

None

Witnesses:

Neil Mason, Senior Advisor (Pension Fund), Finance

Alex Moylan, Senior Accountant, Finance

Phil Triggs, Strategic Finance Manager, Finance

Key points raised during the discussion:

1. The Board reviewed its annual report. It was informed that the annual report would be reported to the Pension Fund Annual General Meeting. Minor amendments were proposed to take account that the report covered activity in 2016/17.

Resolved:

The Board **agreed** the contents of the report, following minor amendments to the compliance checklist to reflect that the report covered activity in 2015/16.

Actions/ further information to be provided:

None.

48/16 EXCLUSION OF THE PUBLIC [Item 16]

Resolved: That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information under the relevant paragraphs of Part 1 of Schedule 12A of the Act.

49/16 REVIEW OF INTERNAL DISPUTE RESOLUTION CASES - QUARTER ONE 2016/17 [Item 17]

Declarations of interest:

None

Witnesses:

Neil Mason, Senior Advisor (Pension Fund), Pensions and Treasury

Alex Moylan, Senior Accountant, Finance, Pension Fund and Treasury

Phil Triggs, Strategic Finance Manager

Key points raised during the discussion:

1. The Board reviewed the Internal Dispute Resolution Cases report. It was noted by officers that a learning point had been the need for clearly documented decision-making on the part of the employer.

Resolved:

The Board **noted** the contents of the report.

Actions/ further information to be provided:

None.

50/16 PUBLICITY OF PART 2 ITEMS [Item 18]

The Board agreed there would be no publicity for items considered under Part 2.

51/16 DATE OF THE NEXT MEETING [Item 19]

The Board was informed that the current date of the next meeting was 15 March 2017.

It was agreed that a meeting of the Board would be scheduled in January 2017 to cover quarter three of 2016/17.

Meeting ended at: 12.47 pm

Chairman