

MINUTES of the meeting of the **SURREY LOCAL PENSION BOARD** held at 10.00 am on 15 March 2017 at Ashcombe Suite, County Hall, Kingston upon Thames, Surrey KT1 2DN.

These minutes are subject to confirmation by the Board at its next meeting.

Members:

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

13/17 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

There were no apologies received.

The Chairman noted it was the last meeting before the elections. He thanked the Board for their contributions, and in particular highlighted the work of John Orrick, the Vice-Chairman, who would not be standing for re-election in May.

14/17 MINUTES FROM THE PREVIOUS MEETING: 25 JANUARY 2017 [Item 2]

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

15/17 DECLARATIONS OF INTEREST [Item 3]

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.

16/17 QUESTIONS AND PETITIONS [Item 4]

There were none.

17/17 ACTION TRACKER [Item 5]

Declarations of interest:

None

Witnesses:

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

Key points raised during the discussion:

1. The Board reviewed the action tracker and noted a number of items as complete. Officers highlighted that the risk register had been updated at the advice of Mercer following the American elections, and that asset allocation was being reviewed in light of this. The Pension Fund Committee was due to receive an update at its next meeting.

Actions/ further information to be provided:

None.

Recommendations:

None.

18/17 PENSION COMMITTEE UPDATE [Item 6]

Declarations of interest:

None

Witnesses:

Jason Bailey, Pensions Lead Manager

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

Key points raised during the discussion:

1. The Board was informed that the 91% increase in the funding level had seen the majority of individual employer deficits decrease. Officers noted that there had not been a significant impact on contribution rates, with the exception of academies. It was explained that when academies converted, they were assessed at a low funding level due to their initial full funding of historic pensioner and deferred liabilities, this meant that future funding was accelerated due to there being no requirement to fund pensioner and deferred liabilities prior to conversion . The Board was informed that the bigger employers in the fund were part of a stabilisation funding programme, which meant contribution rates were not significantly affected in light of the funding level increase. This was intended to ensure longer term stability for those larger employers in setting their contribution rates.
2. The Board discussed how community admitted bodies were able to improve their funding levels through providing securities such as a charge against property. It was noted that independent covenant firms were an option, and that legal and other costs for these arrangements were recharged to the employer. The Board discussed the different categorisations on the basis of probability and how this applied to different employers.
3. The Board discussed Fund investments. It was noted that Mercer was revising its asset allocation on behalf of the Fund in light of positive performance. The Board highlighted that there was an opportunity to look at wider investments such as bonds or infrastructure investment, in order to ensure longer term security on the Fund's returns. Officers

commented that infrastructure investment would be a consideration, though this would be considered more viable in the pooled Fund arrangements once in place.

4. The Board was informed that the Pension Fund Committee had made a commitment of £35-£40 million to Darwin Property Fund, contingent on a reduction in management fees. It had agreed an investment of £15 million to Standard Life, and declined a similar investment with HGA as it was felt that management fees had been too high.
5. The Board discussed whether the Fund was considering a de-risking strategy trigger point for deficit management. Officers commented that the previous proposed trigger had been based on a gilts plus methodology, and that the new actuarial methodology of Consumer Price Index (CPI) plus did not permit a similar application. The Board expressed the view that this could be revisited in light of current Fund performance.
6. The Board discussed the representations made by the public with reference to fossil fuel and “sin stock” investments. It had been agreed that a response from the Chairman of the Pension Committee would be supplied to address the key points raised in respect to this.
7. Officers informed the Board that cyber security had been added to the Fund risk register. Board members queried what insurance arrangements were in place in respect to this. It was highlighted that fund managers were expected to undertake their own arrangements, and that the Pension Services would clarify whether it was covered under corporate insurance arrangements for the council.

Actions/ further information to be provided:

- Officers to provide Pension Committee response to fossil fuel investments.
- Officers to confirm insurance arrangements for Pension Services in the event of a cyber security issue

Recommendations:

- That the Pension Committee consider what appropriate measures could be taken in order to reduce risk in response to the increasing funding level.

19/17 ADMINISTRATION UPDATE [Item 7]

Declarations of interest:

None

Witnesses:

Jason Bailey, Pensions Lead Manager

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

Key points raised during the discussion:

1. The Board was provided an update with respect to changes in staffing structures within Pension Services. This was intended to place a greater focus on performance. It was noted that the staff consultation was ongoing, and an interim structure would be in place from 1 April 2017.
2. The Board discussed the timescale for improvement, it was confirmed that officers anticipated some immediate improvements, with performance stabilising over the next six months. It was expected that all outstanding work would be completed in 12 months. It was confirmed that the Board would receive the project plan, with deliverables and target dates for reporting progress.
3. The Board queried whether employers were kept informed of how the Pension Services was responding to performance issues. It was noted that there was minimal engagement at this stage, though officers invited the Board's views as to how employers could be kept up to date. The Board highlighted the Surrey Treasurer's Group and HR Managers group as appropriate forums to raise the matter. It was also proposed that an update could be included in the employer bulletin produced by the service.
4. The Board was informed that the work to put annual benefits statements online for active members was on target. It was noted that deferred members would continue to receive paper statements, though they would be encouraged to register for an online statement in the future.
5. The Board discussed progress on data cleansing and address screening for frozen refunds and unprocessed leavers. It was noted that the National LGPS Procurement Framework would support this activity, though its delayed launch in February 2017 meant that work would be conducted in quarter 1 2017/18.
6. The Board was informed that 400 deferred members were approaching retirement in the unprocessed leavers category. It was noted that the majority of these had elected to defer benefits to a later date. It was confirmed that approximately 90 were without up-to-date contact details, and that Pension Services was making use of the Department of Work and Pensions tracing service to locate them.
7. The Board queried how frozen refunds were reported. Officers outlined that these were reported in the Fund accounts under a specific category. It was confirmed that this group represented a liability of £500,000 plus interest to the Fund.
8. The Board queried what an acceptable level of unprocessed leavers would be for a pension fund of equivalent size. Officers commented that this was around 1,000, including records that required aggregation. It was highlighted that reducing the number of unprocessed leavers from 7,261 would be a primary area of focus for Pension Services.

Actions/ further information to be provided:

- Officers to share project plan, deliverables and reporting timescales to the Board.
- Officers to include information on changes within Pension Services in its bulletin to employers.
- Officers to discuss planned performance improvements with the relevant employer forums.

Recommendations:

None.

20/17 KEY PERFORMANCE INDICATORS QUARTER 3 2016/17 [Item 8]

Declarations of interest:

None

Witnesses:

Jason Bailey, Pensions Lead Manager

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

Key points raised during the discussion:

1. The Board raised questions on performance related to death benefits and ill health retirements. Officers noted that this should be two areas of highest priority for Pensions Services, and informed the Board that steps were being taken to address performance in this area. The Board was informed that quarter four 2016/17 figures were showing improvement in this area. The Board asked for further information with regard to the payment of death grants following receipt of relevant documentation. The Board expressed concern regarding the delay in providing retirement options for ill-health retirements had arisen, officers outlined that this related to two cases.
2. The Board discussed the monitoring of transfers in, and suggested that an additional key performance indicator could be the time it takes to provide new joiners with information. The Board queried the increase in active members, it was confirmed that this was reflective of the London Borough of Hillingdon having entered into a partnership agreement with Pension Services in respect to its pensions administration. It was also highlighted that a number of the larger employers had reached the re-enrolment date for staff whom had previously opted out of the scheme. Officers commented that a fund would normally see a membership increase of about 5% a year.

Actions/ further information to be provided:

- Officers to provide information with regard to the payment of death grants following receipt of relevant documentation.

Recommendations:

That the Key Performance Indicators report on the time it takes to supply information to new joiners.

21/17 INTERNAL DISPUTE RESOLUTION CASES: QUARTER 3 2017/18 [Item 9]

Declarations of interest:

None

Witnesses:

Jason Bailey, Pensions Lead Manager
Neil Mason, Senior Advisor (Pension Fund), Pensions and Treasury

Key points raised during the discussion:

1. The Board noted the report, there were no further comments.

Actions/ further information to be provided:

None.

Recommendations:

None

22/17 CIPFA ADMINISTRATION BENCHMARKING CLUB 2017 [Item 10]

Declarations of interest:

None

Witnesses:

Jason Bailey, Pensions Lead Manager
Neil Mason, Senior Advisor (Pension Fund), Pensions and Treasury

Key points raised during the discussion:

1. The Board queried how the cost/member tree was calculated per member, and where actuarial and audit costs appeared in relation to the cost per member of the Surrey Fund. Officers commented that the breakdown related explicitly to the administration of the scheme, and agreed to clarify where these costs appeared in relation to the fund.
2. The Board was informed that some costs were clearly defined in the CIPFA guidance, while others, such as the accommodation and central charges, were subject to individual fund determination. It was noted by the Board that the CIPFA figures were intended as an indicative comparison, rather than definitive.
3. The Board queried the level of qualified to unqualified staff, sickness absence and the number in training. It was noted that the figures were low due to staffing issues, and that officers expected an improvement in future reporting.

4. The Board was informed that training and qualification opportunities for the team were being developed, with five members of staff being put forward for vocational training. Officers commented that it was important to ensure that staff were experienced and aware of the transitional protections that had built up over the life of local government pension schemes. The Board asked for further information regarding the skills mix within Pension Services, and a target for the optimum level of training and qualifications across the team.

Actions/ further information to be provided

Officers to provide information on how actuarial and audit costs are calculated per member.

Officers to provide details on the skills matrix for the Pension Services including targets for developing.

Recommendations:

None.

23/17 DRAFT FUNDING STRATEGY STATEMENT [Item 11]

Declarations of interest:

None

Witnesses:

Jason Bailey, Pensions Lead Manager

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

Key points raised during the discussion:

1. The Board noted the different approaches for different employers, and officers outlined that multi-academy trusts were considered in a more favourable light to single academies, as they provided cross guarantees. It was highlighted that Further Education colleges were considered private enterprises by central Government, and the insolvency regime associated with this impacted on how colleges were assessed.
2. The Board was informed that the consultation process followed on from the draft being agreed at the Committee meeting on 10 February 2017. Following this, the strategy had been issued to all employers for consultation. The deadline had been extended to the last week of March, and there had been limited response. Officers expressed the view that this was not unusual, and that individual employers had been in discussion about their own funding plans within the principles of the strategy.

Actions/ further information to be provided

None.

Recommendations:

None.

24/17 SURREY FUND PARTICIPATION IN ASSET POOLING [Item 12]

Declarations of interest:

None

Witnesses:

Jason Bailey, Pensions Lead Manager

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

Key points raised during the discussion:

1. The Chairman tabled a number of responses from local pension boards within the pooled arrangements. These outlined the views of different boards with reference to member representation at a pool level. This document is attached as an annex to these minutes.
2. The Board discussed the governance structure for the pooled funds, including the role of the shareholder board and joint committee. It was noted that any decision required 75%-100% approval by those administering authorities within the pool. The Board was informed that the administering authorities would retain sovereign responsibility with respect to setting the asset and funding strategy for the pooled fund. Officers outlined that the proposal was due to go to full Council on 22 March 2017 for decision, with implementation in April 2018.
3. The Board queried how quickly assets would be transferred to the pooled arrangement. It was explained by officers that this could be a quick process, as a number of managers already used by funds were likely to be involved in pooled investments.
4. The Board was informed that each administering authority would have responsibility for undertaking its own actuarial evaluation. It was highlighted that this could lead to different funds in the pooled arrangement having differing actuarial assumptions.
5. The Board discussed the role of local pension boards, and member representatives in respect to pooled investment arrangements. The Board expressed a range of views, including some support for a non-voting observer, or a joint local pension board arrangement. It was noted that it was difficult to ensure a member representative would reflect the different demographics in the pooled arrangements. It was highlighted that Unison representatives across the 12 administering authorities were already meeting to discuss shared priorities and concerns. Other members of the Board reflected that there was benefit in ensuring appropriate communication flow between the different layers of governance. The Board expressed the view that it would require a more thorough options appraisal in order to come to a firm view.

Actions/ further information to be provided

None.

Recommendations:

That officers develop an options appraisal and analysis with respect to the governance of the pooled investment arrangements, covering the implications of the following:

- Joint local pension board arrangements
- Communication arrangements between local pension boards
- Member representation at pool level
- Formalised communications pathways between the different layers of governance; or
- No change to the current governance arrangements.

25/17 DATE OF THE NEXT MEETING [Item 13]

The Board noted its next public meeting was scheduled for 27 July 2017.

The Board noted it had a private workshop in order to consider how environmental, social and governance factors were factored into the draft investment strategy statement on 19 April 2017.

Meeting ended at:
11.52am

Chairman

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Surrey Local Pension Board Member Representation at Pool Level 15 March 2017

Original correspondence sent to Local Board chairman for the relevant Borders to Coast pool funds: Bedfordshire Pension Fund, Cumbria Pension Fund, Durham Pension Fund, East Riding Pension Fund, Lincolnshire Pension Fund, North Yorkshire Pension Fund, Northumberland Pension Fund, South Yorkshire Pension Fund, South Yorkshire Passenger Transport Pension Fund, Surrey Pension Fund, Teesside Pension Fund, Tyne and Wear Pension Fund, and Warwickshire Pension Fund

Dear Local Pension Board Chair,

I am writing to you in my capacity as the Chair of the Tyne and Wear Local Pension Board.

At our quarterly meeting on 21 December 2016, we learned that the Pensions Committee representatives of the funds comprising the Borders to Coast pool (The pool) have resolved not to allow any representation at pool level for scheme members. At our previous Board meeting, we unanimously advised the Tyne and Wear Pensions Committee that whilst we were happy that employer interests are adequately represented at pool level by elected members, there needs to be a person to represent the interests of scheme members at pool level.

We were not advising the Tyne and Wear Pensions Committee to give an employee representative any voting rights. We consider that it is a matter of good governance that a scheme member point of view is present and available at all pool meetings attended by Pensions Committee members. This view is shared by the Tyne and Wear Pensions Committee.

As a Board, we feel strongly that the absence of a voice representing scheme member interests at pool level is an omission, that we are not willing to merely accept.

My purpose in writing to you is to establish:

1. Whether your views as a Board were sought on whether there should be scheme member representation at pool level?
2. Whether you provided your pension scheme with any views on scheme member representation at pool level and if so, what were those views?
3. Do you agree that the absence of a scheme member voice at pool level represents an unsatisfactory omission and that you would like to see scheme member representation at pool level written in to the pool constitution?

If you share the Tyne and Wear Board's concerns, there may be merit in taking this issue up with your own Pensions Committee. If several Pension Boards within the pool raise this issue as a concern, hopefully, we can secure an improved governance structure at pool level to everyone's benefit.

I am grateful for the time you spend on this correspondence. More generally, I hope we will be able to establish lines of communication among the Boards within our pool, which will help us all to discharge our statutory duties more effectively.

Yours sincerely

Mike Harding

On behalf of Nicholas Wirz

Chair – Tyne and Wear Pension Fund Local Pension Board

Town Hall, Grange Road, Jarrow, Tyne and Wear NE32 3LE

Tyne and Wear : Mike Harding, emailed 15/02/17

Support Member representation at Pool Level, without voting rights. Observer status.

Lincolnshire : Roger Buttery, emailed 19/02/17

Does not support, (unless they are granted voting rights), considers that there is adequate scrutiny via Lincolnshire Pension Committee and Board

North Yorkshire : David Portlock, emailed 19/02/17 (3) and 23/02/17 (4)

Some strongly held views that there should be some method of representation of Member views at pool level. Pension Committee didn't want a substantial change to complex governance arrangements. Concluded that Member representatives could be an answer, being able to offer comments.

South Yorkshire : Glyn Boyington, emailed 19/02/17 (5)

South Yorkshire Pension Authority and South Yorkshire Passenger Transport Fund Authority declined to ratify governance without some reassurance on Trade Union involvement

Warwickshire : Keith Biny, emailed 19/02/17

Member engagement via Local Pension Board

Cumbria : Ian Stewart, emailed 21/02/17

Engagement at local level, no need for another category of Member. Considers that it will not add value.

Summary

Observer Status approved: Tyne and Wear, North Yorkshire and South Yorkshire

Observer status declined: Lincolnshire, Warwickshire and Cumbria

Dear Mike and Nicholas

A belated thank you for your email asking for the views of the other Local Pension Boards on the above issue. The Northumberland LPB is pleased to have received regular and timely updates on the decisions required and progress made as we move towards the establishment of pooling. The issue at Board level of whether or not to support a role for a scheme member representative was being deferred pending receipt of guidance from the Scheme Advisory Board which we gather is still awaited. The Board has now discussed the issue, plus associated wider aspects, including that of communications between the Pool and Local Pensions Boards, and is making six recommendations to the Northumberland Pensions Panel, at its next meeting on 31 March 2017, as shown below.

The Northumberland Local Pension Board unanimously recommends to the Pension Fund Panel:

- 1 to support the proposal of the Tyne and Wear LPB that a place is found for one scheme member representative to attend the meetings of the Member Steering Group / Joint Committee of the Border to Coast Pensions Partnership Pool;*
- 2 that that representative attend In a speaking but non-voting capacity;*
- 3 that that representative should be an existing Board member at one of the Administering Authorities in the Border to Coast Pensions Partnership Pool;*
- 4 that that representative need not necessarily be an appointed Trade Union representative, although such a representative would more likely be better placed to facilitate communication with scheme members.*

The Northumberland Local Pension Board also considered the related issue of communication flows to Boards from the Pool. It acknowledges that the dominant feature of a Board's agenda is the administration function and risk management and that Pooling issues will never be the primary focus. The Board notes that the recent CIPFA Guidance "Investment Pooling Governance Principles" refers (page 25) to the need for effective communication with LPBs as follows:

"keeping the pension committees (which often have scheme member and employer representatives) and local pension boards properly informed (and consulted with) on the development and ongoing operation of the investment pool"

Each Committee would be represented on the Pool and therefore have first-hand knowledge and awareness. At this stage it is very difficult to get a satisfactory feel for the effective communication flows that would facilitate Boards in their statutory reviewing role. LPBs need to feel confident that they are sufficiently "in the loop" to carry out their role effectively. Pragmatically, a case could be made for one LPB Chair to have observer status, perhaps on a 12 month rotation, providing feedback to

all other LPB Chairs, who can then share with their own LPB. This solution would not only appear to be consistent with the aims of the Guidance, but would also make the transparency of the Pool's activities that much stronger.

Thus the Northumberland Local Pension Board further unanimously recommends to the Pension Fund Panel:

5 to support the presence in an Observer status of one LPB Chair at meetings of the Member Steering Group / Joint Committee of the Border to Coast Pensions Partnership Pool, perhaps on a 12 month rotation, providing feedback to all other LPB Chairs, who can share with their own LPB, with the associated costs being picked up either by the Administering Authority for their year or split equally between the participating Funds.

Regarding information flows to Scheme Employers within the Pool, the Northumberland Local Pension Board further unanimously recommends to the Pensions Panel:

6 to support effective communication by the Pool with scheme employers, consistent with the CIPFA Guidance (page 25) relating to employer forums, annual meetings, meetings with large employers and employer newsletters.

Finally, Northumberland Local Pension Board supports the proposal of the Chair of the Tyne and Wear LPB, as is happening with at least one other LGPS Pensions Pool, to establish lines of communication among the Board Chairs within our Pool, which will help us all to discharge our statutory duties more effectively, particularly if coupled with Recommendation (5) above.

I hope you find these recommendations helpful.

It was a pleasure to meet several Chairs and members of the Local Pension Boards in our Pool at the CIPFA Pensions Network / Barnett Waddingham event in Leeds on 1st March, and other who attended the equivalent event in London two days earlier. We are looking to stage a similar event in Leeds in twelve months' time.

Gerard Moore
Independent Chair
Northumberland Local Pension Board