

minutes

Meeting NOTTINGHAMSHIRE LOCAL PENSION BOARD

Date Wednesday, 11 September 2019 at 1.30 pm

membership

Persons absent are marked with `A`

Employers

Councillor Sue Saddington	Nottinghamshire County Council
Councillor Steve Battlemuch A	Nottingham City Council
James Lacey	Nottingham Trent University
David Smith	Autism East Midlands

Members

Bernard Coleman	A	Pension Scheme member
Mark Heppenstall	A	Pension Scheme member
Thulani Molife		Pension Scheme member

Also in Attendance

John Raisin John Raisin Financial Services Ltd, Advisor to the Board

Officers in Attendance

Jon Clewes	Team Manager, Pensions
Martin Gately	Democratic Services Officer
Ciaran Guilfoyle	Investments Officer
Sarah Stevenson	Group Manager Business Services Centre

MINUTES

The minutes of the last meeting held on 18 December 2018 having been previously circulated were confirmed and signed by the Chair.

APOLOGIES FOR ABSENCE

Apologies for absence had been received from Bernard Coleman and Mark Heppenstall.

DECLARATIONS OF INTEREST BY MEMBERS AND OFFICERS

None.

LOCAL GOVERNMENT PENSION SCHEME – PENSION ADMINISTRATION PERFORMANCE

Jon Clewes, Pension Manager, introduced the report, the purpose of which was to inform the Pension Board of the performance of the Administration Team, and provide details of the key performance indicators that have been developed and updated by cipfa.

Mr. Clewes explained that there had been some changes to reporting due to alterations to the CIPFA guidance on performance data. Each year the main issue for the administration of the fund has been the performance of scheme employers providing their statutory data in a timely manner. The Administration Strategy is designed to provide a framework for the management of scheme employers' responsibilities to ensure the administering authority accurate data.

Accuracy of data is critical in order to ensure that: members are paid correctly, employer costs are reliable, administration is cost effective, and to avoid a visit from the pensions regulator.

The current number of employers is 341, and this fluctuates, particularly with schools changing to academies.

In response to a question from the Chairman regarding reduced performance over the last year, Mr Clewes indicated that a number of academies have changed payroll providers and don't realise the implications arising from this and the difficulties they will experience. Some academies have been losing more experienced staff and new staff do not always know the complexities of the Pension Scheme.

While accuracy may not reach 100%, there are plans to improve it further by moving to monthly returns, gaining more employer focus and running pensions functions along the lines of payroll.

In a further response to a question from the Board regarding pensions administration resourcing, Mr Clewes stated that getting trained staff could be a challenge. The report listed the main benchmarks that the fund is required to meet. Deaths are acknowledged by letter within five days, and entitlement to death payments are also made within five days – 97% are completed against the CIPFA Key Performance Indicator. Retirements have increased significantly with more members able to retire at 55 and take benefits. Transfers, refunds and divorce quotes all occupy administration resources, and although batches of work are prioritised it has been quite challenging.

RESOLVED 2019/001

That:-

- 1) The performance of the administration of the pension fund, and the continued development of systems and processes that will improve the service to members of the fund be considered.

LOCAL GOVERNMENT PENSION SCHEME – GUARANTEED MINIMUM PENSION RECONCILIATION EXERCISE WITH HMRC – UPDATE REPORT

Jon Clewes introduced the report, the purpose of which was to update the Pension Board on the progress of the guaranteed minimum pension (GMP) reconciliation exercise with HM Revenue and Customs (HMRC). Mr Clewes explained that the GMP exercise had impacted on all public and private sector pension schemes. There is a requirement to reconcile the GMP elements [and make sure that members are being paid the correct amount] and this impacts on the value of the fund. The project is running late and has been put back by approximately six months. Over and underpayments on active pensions will be calculated soon, and a report will be taken to Pension Committee regarding this. HMRC presented a £750,000 deficit over thirty years. However, a number of discrepancies were identified in HMRC's data and further challenge has reduced the deficit down to £160,000.

The next stage of the project is manual calculations. Other funds have not sought repayment of overpayments. There will be a communications plan once liabilities have been identified. Additional resources for the pension administration service have also been requested via Pension Committee.

In response to queries, Mr Clewes indicated that average administration costs would be impacted on, and that it was unknown whether there would be a resulting reduction in benefits.

RESOLVED 2019/002

That the progress of the GMP reconciliation project to date be considered and an update report be received.

UPDATE ON THE LOCAL GOVERNMENT SCHEME INCLUDING THE SCHEME ADVISORY BOARD

Jon Clewes and John Raisin introduced the report, the purpose of which was to provide Nottinghamshire Pension Board with a high level summary of the main topics being considered by the National Local Government Scheme Advisory Board and other national initiatives that are being proposed by the Ministry of Housing, Communities and Local Government (MHCLG).

Mr Raisin indicated that he had covered four main issues in his paper to the Pension Board:

- Scheme Advisory Board project – Good Governance in the LGPS
- The LGPS Cost Control process, “McCloud” and its potential implications
- LGPS Consultation: Changes to the Local Valuation Cycle and the Management of Employer Risk
- Investment Pooling – the present situation regarding national guidance

Mr Raisin explained that in relation to the future governance arrangements of the LGPS Hyman Robertson had undertaken a consultation on behalf of the Scheme Advisory Board into four possible models.

Model 1 includes enhancing the LGPS governance arrangements by making more explicit recommendations regarding the operation of local LGPS funds. Model 2 would maintain existing structural arrangements but with greater ring fencing and less direct input from the Section 151 Officer; Model 3 related to the use joint committees; while Model 4 proposed the establishment of new local authorities responsible only for LGPS functions such as the existing South Yorkshire Pension Authority – the Government was petitioned in the 1980s for the South Yorkshire Pension Authority to be set up.

An online survey indicated a preference for Model 2 followed by Model 1. Models 3 and 4 received little support.

Hymans Robertson concluded, however, that governance structure was not the only determinant of good governance, and did not favour or propose consideration of any of the four models of governance, instead they made four proposals to the SAB which was based on an outcomes based approach including enhanced governance standards and independent reviews of governance.

The proposals also included updating the Statutory Guidance on LGPS governance issued in 2008. Any material changes to LGPS governance will require the MHCLG to issue a formal consultation and then consider responses before issuing any new guidance. Mr Raisin suggested that any changes to the governance of the LGPS could not be approved until June 2020 at the very earliest.

Mr Raisin felt that there was a need to stop the endless discussion about the structure of the LGPS and indicated that he hoped the Hymans Robertson proposals would achieve this.

Turning to the LGPS Cost Control process Mr Raisin mentioned the Hutton Review of defined benefit public sector pensions which some commentators had suggested were ‘gold-plated’ final salary pension schemes. Hutton’s finding was that such schemes were emphatically not ‘gold-plated’ but a ‘cost control’ mechanism had subsequently been introduced to limit the cost of such schemes.

The first review of the LGPS found that rather than increasing the cost of the scheme as measured by the ‘cost control’ mechanism had actually fallen and therefore the Scheme Advisory Board had proposed scheme improvements particularly aimed at lower paid workers

These proposals to improve the LGPS for its members had however to be placed on hold. Last year the Government lost two cases in the Court of Appeal (the McCloud case relating to the Judicial Pension Scheme and the Sargeant case relating to the Firefighters’ Pension Scheme). The court found in favour of the appellant(s) and certain protection on the basis of age is discriminatory. The LGPS will need to await the remedy, in the McCloud and Sargeant cases, which will come via an Employment Tribunal and after this a remedy will need to be applied to the LGPS. This has caused a freeze on the implementation of the Scheme Advisory Board proposals and the outcome in respect of the LGPS is therefore still awaited.

Mr Raisin explained issues in relation to the consultation entitled “LGPS: Changes to the Local Valuation Cycle and the Management of Employer Risk.” This was regarding the proposed shift to a four yearly local fund valuation cycle. The reason for the change is that the Government wants to align LGPS actuarial

valuations with the unfunded public sector schemes Mr Raisin suggested this will not help the LGPS, in fact, it is likely to make life more difficult as it will increase employer related risk although the Consultation also included proposals to help mitigate this. One proposal in the Consultation relating to universities and further education colleges, in England, is to remove the requirement to offer membership of the LGPS to non-teaching staff.

Mr Raisin updated the Board on the present situation regarding national guidance in relation to Investment Pooling. On 3 January 2019 the MHCLG had issued a Consultation on new statutory guidance on asset pooling which in essence provided in one document clear and enforceable guidance for asset pooling. The section on governance for example had made it clear that asset pools are and must be accountable to their constituent LGPS Funds and that in effect Pools are there to serve the investment needs of the LGPS Funds who own/commission them.

RESOLVED 2019/003

That the Nottinghamshire Pension Board consider the activities of the Scheme Advisory Board, and update its work programme as appropriate to reflect the recommendations of the Scheme Advisory Board.

LOCAL GOVERNMENT PENSION SCHEME – TRANSFORMING PENSION ADMINISTRATION

Sarah Stevenson, Group Manager Business Services Centre, introduced the report, the purpose of which was to update the Pension Board on a report presented to Pension Committee seeking Committee approval for the development of a programme of work to transform pension administration through digital development and implementation of new ways of working.

Ms Stevenson highlighted how a significant number of members have service which straddles several LGPS regulations. The Authority has drafted a digital strategy and anticipates interaction via a digital platform. The Regulator now expects this as the default position. The report therefore proposes an overarching programme transforming administration through digital means.

In response to a question from a Board Member regarding GDPR implications, Ms Stevenson explained that there is now a requirement to do a data impact assessment – e.g. against cyber attacks. They are tried, tested and working.

John Raisin commended the report to the Board. He stated that pensions administration is one of the most difficult things to get right. There are real challenges to every aspect, but this is a very positive approach.

The Chairman of the Board agreed that this was an important programme of work.

RESOLVED 2019/004

That Nottinghamshire Pension Board:

- 1) Consider and comment on the report regarding the scoping and development of work to transform pension administration through digital development and new ways of working.
- 2) Agree to receive update reports.

PENSION FUND RISK REGISTER

Ciaran Guilfoyle, Investments Officer, Pensions and Treasury Management, introduced the report, the purpose of which was to provide the Pension Board with a report on the risk management of the Risk Register of Nottinghamshire Pension Fund.

David Smith queried whether or not it might be beneficial, and good practice, for very high risks to be reviewed more often than annually. Mr Guilfoyle agreed that this was something which could be suggested back to Nigel Stevenson, the Section 151 Officer.

The Pension Board then proceeded to make the firm recommendation that the Risk Register is on the agenda of the Pension Fund Committee more than once per year.

In response to a question from Thulani Molife, Mr Guilfoyle indicated that pooling had not added to risk in a material way. John Raisin clarified that investment strategy is set by the Nottinghamshire Fund and not the LGPS Central pool, and that is the primary determinant of returns. Investment manager appointments which will over time become the responsibility of the pool are of second order importance.

RESOLVED 2019/005

That the Pension Fund Committee be invited to consider the Risk Register on a more frequent basis.

LGPS CENTRAL LIMITED UPDATE

Ciaran Guilfoyle introduced the report, the purpose of which was to provide information about the latest position in respect of LGPS Central Ltd.

Mr Guilfoyle stated that LGPS Central now had a new chief executive, and its website was now up and running. As of last week there was a transfer by Nottinghamshire Pension Fund into the emerging markets fund. Direct Property are likely to stay with us for some time, but Corporate Bonds are changing. At the moment, we are waiting to go back to Legal and General in order to transfer passive funds to them.

Mr Guilfoyle explained that although Legal and General's fees are a little high, LGPS will be tracking the same benchmark i.e. how the FTSE 100 is moving on a weekly basis. Previous systems in place were quite manual. More frequent tracking of the benchmark is desirable. John Raisin added that passive investment was not difficult to do, and the government would expect this to be an early area for

investment pooling arrangements. There will also be rigorous reporting requirements relating to investment pooling in the future.

RESOLVED 2019/006

That the report be considered and the activities of LGPS Central Limited continue to be monitored through regular update reports.

FINANCIAL RISKS OF FOSSIL FUEL INVESTMENTS QUERY

The Chairman, Mr Lacey, introduced the item and indicated that he had requested for it to be placed on the agenda. Mr Lacey said that he had received 100 e-mails from Extinction Rebellion. A response has now been sent, but the issue should not go away. There is no action to take to Committee at this time.

Mr Raisin stated that this topic was massively raised by pressure groups around the country. Committees need to be guided by the law, and it needs to be kept in mind that the purpose of the fund is to meet its liabilities. This fund is taking the matter extremely seriously and William Bourne, the Independent Investment Advisor to the Nottinghamshire Fund, has provided advice on these matters within the guidance set down by MHCLG.

WORK PROGRAMME

A report on the frequency of Nottinghamshire Pension Board meetings will be taken to the next meeting.

Mr Lacey indicated that he would be standing down as Chairman after this meeting.

The meeting concluded at 3.45 pm.

CHAIR