

PENSION BOARD

MINUTES of a meeting of the Pension Board held at County Hall, Lewes on 26 June 2017.

PRESENT	Richard Harbord (Chair), Councillor Kevin Allen, Angie Embury, Bernadette Carlyle, Sue McHugh, Councillor Brian Redman and Tony Watson
LEAD MEMBERS	Councillor David Elkin
ALSO PRESENT	Ian Gutsell, Head of Finance - ASC and Health Phil Hall, Strategic Financial Advisor Ola Owolabi, Head of Accounts and Pensions Brian Smith, Regional Operations Manager Jason Bailey, Pension Services Manager Wendy Neller, Pensions Strategy and Governance Manager John Shepherd, Finance Manager (Pension Fund) Russell Wood, Principal Pensions Officer

1 MINUTES

1.1 The Board agreed that the minutes were a correct record of the meeting held on 9 February 2017.

2 APOLOGIES FOR ABSENCE

2.1 There were no apologies for absence.

3 DISCLOSURE OF INTERESTS

3.1 There were no disclosures of interest.

4 URGENT ITEMS

4.1 There were no urgent items.

5 PENSION COMMITTEE AGENDA

5.1 The Board considered a report on the Pension Committee's agenda for its 17 July meeting.

5.2 In reference to **Item 9: Pension Administration System**, Phil Hall (PH), Strategic Financial Advisor, explained that an independent auditor has been commissioned to review the procurement of the pension administration system provided by Heywoods. The independent auditor's report was not ready in time for the Pension Board to consider it but would be ready for the Pension Committee on 17 July. The Chair said that it was important that Board Members had an opportunity to view and comment on the report prior to the 17 July so that he could relay their comments to the Committee.

5.3 Angie Embury (AE) and Councillor Brian Redman (BR) both commented whether it was worth delaying the strategy day until the Pension Committee had received more training, as three new members had been appointed following the 4 May local elections. Ola Owolabi (OO), Head of Accounts and Pensions, said that the new Members had already been provided with an induction session and the first half of the strategy day would involve providing Members with an overview of the investment landscape. The Chair agreed with the general principle that the Pension Committee should not take decisions without training beforehand.

5.4 The Board RESOLVED to note the report.

6 DRAFT PENSION FUND ANNUAL REPORT - 2016/17

6.1 The Board considered a report on the Draft Pension Fund Annual Report 2016/17.

6.2 OO confirmed that there had been three employers that submitted late pension contributions on 31 March 2017, and the total late payment amount was around £8,000. He added that none of the three were in arrears, nor had they submitted late payments in the past.

6.3 The Chair noted that although there has been a reduction in fees paid to investment managers, from a forecast of £8.8m to an actual outturn of £7.7m, the addition of fees deducted from source meant the overall amount paid to investment managers for 2016/17 had increased slightly. He also noted that it was not possible to give a forecast for fees deducted from source for 2017/18.

6.4 BR asked for a breakdown of the reasons for the 26 outstanding pension overpayments during 2016/17, which was a significantly higher amount than for 2015/16. Jason Bailey (JB), Pension Services Manager, explained that he suspected they were due to late notification of the death of a pensioner, which can result in difficulties in recovering money from the next of kin. JB said that Orbis was in discussions to use a mortality screener that would allow officers to scan the pension fund membership against the death register (GRI); this would be a free service. He clarified that there had been no change to the Pension Administration Team's procedure for paying pensioners, so the increase would not be due to procedural reasons.

6.5 Sue McHugh (SM), Employer representative, asked why there appeared to be a greater number of complaints against the East Sussex Pension Fund (ESPF) listed than had been reported to the Pension Board as part of its Key Performance Indicators (KPIs) update. JB explained that the true number of complaints was five or six (as reported to the Board) but the figure of 32 published in the Annual Report included negative feedback from a recent survey.

6.6 The Chair recommended that the 'Administrative Management Performance' section include some context to explain that the administration targets were changed to more appropriate targets in 2016, and that they are monitored on a quarterly basis by the Pension Board and Pension Committee.

Note – following the Board meeting, Brian Smith provided the Accounts and Pensions team with a revised KPI report to be included within the draft 2016/17 Pension Fund Annual Report, which negate the need for additional commentary.

6.7 The Board RESOLVED to:

- 1) note the report;
- 2) request a breakdown of the outstanding pension payments to be circulated to the Board by email; and
- 3) request a report for a future Board meeting on the results of the ESPF customer survey.

7 EXTERNAL ASSURANCE REPORT FROM THIRD PARTIES

7.1 The Board considered a report titled External Assurance Report from Third Parties.

7.2 SM queried whether Newton's external assurance report – mentioned in the Internal Audit report as outstanding – was still outstanding. OO confirmed that it has now been received as it had been handed to KPMG as part of the annual external audit of the ESPF Accounts.

7.3 The Chair asked what investment managers were asked to fill out in order to respond to the external assurance reports for third parties. OO said that an agreement about what information to provide, data requirement, and in what format, are included as part of the investment management agreement between the ESPF and its investment managers. This is provided by the fund managers' external auditors and covers detailed information about existing controls and procedures. This is in compliance with the Financial Conduct Authority (FCA) regulations.

7.4 The Board RESOLVED to note the report.

8 PENSION ADMINISTRATION STATEMENT

8.1 The Board considered a report about the draft Pension Administration Statement.

8.2 The Chair said it would be interesting to see how many employers respond to the Pension Administration Statement and what larger employers have to say about it, given that they are more likely to be interested due to their pension commitments.

8.3 SM confirmed that – as a representative of employers – she had been provided with an opportunity to comment on the draft Statement.

8.4 The Board RESOLVED to note the report.

9 MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE (MIFID II) - UPDATE

9.1 The Board considered an update on the Markets in Financial Instruments Directive (MiFID II).

9.2 OO confirmed that LGPSs were still awaiting the outcome of the FCA ruling as to whether or not Local Government Pension Schemes (LGPSs) would be permitted to 'opt up' to 'professional client' status. He warned that if the FCA did not permit 'opting up' then it would require considerable change to how LGPS invest. The Local Government Association (LGA) is in the process of lobbying the FCA to reconsider its stance on the categorisation of LGPSs.

9.3 The Chair said that the MIFID II directives had been issued by the European Union but left to member nations to interpret and apply them nationally. He said it appeared the FCA was proposing to adopt them rigidly and without understanding nuances, as, given their size and powers to hire and fire investment managers, LGPSs were evidently professional clients. He cautioned that if the FCA did not appreciate this, and did not allow opting up, it would have a significant impact on pensioners. The Board agreed that the current proposal for LGPSs to be re-classified as retail clients was not in the interest of scheme members.

9.4 The Board RESOLVED to:

- 1) note the report; and
- 2) request a future update on MIFID II.

10 PENSION FUND RISK REGISTER

10.1 The Board considered the latest version of the Pension Fund Risk Register.

10.2 The Chair observed that the risk of ACCESS Chairs not agreeing on key decisions around asset pools, governance, etc., was always going to be a risk as the Chairs will not always agree with each other. The point is that the mitigations in the risk register are robust enough to ensure that the ESPF does not lose out should there be a considerable disagreement amongst ACCESS members. He added that effective decision making by the Chairs should

involve them challenging the proposed decisions they are asked to make, which will inevitably lead to disagreement.

10.3 Councillor Kevin Allen (KA) observed that ACCESS was appearing more regularly in agenda reports but not in its own right. He said that it was important that the Board developed a strong understanding of the issues involved, especially given that ACCESS is due to be in place by 1 April 2018.

10.4 The Board RESOLVED to:

- 1) note the report;
- 2) request that the September training day include a session on ACCESS; and
- 3) request a standing item on the Pension Board agenda about the progress of the ACCESS pool and any emerging risks.

11 LOCAL PENSION BOARD SURVEY

11.1 The Board considered its response to the Scheme Advisory Board's (SAB) Local Pension Board Survey.

11.2 The Chair said that he felt the East Sussex Pension Board had been set up well and had been well resourced since then, and so would appear as one of the better performing local pension boards once the survey results are published.

11.3 The Board RESOLVED to:

- 1) note the report;
- 2) agree a response to the Local Pension Board Survey; and
- 3) request to be sent by email the survey results once they are available.

Note – the agreed survey response will be attached as a supplement of the agenda.

12 GUARANTEED MINIMUM PENSIONS (GMPS) RECONCILIATION - UPDATE

12.1 The Board considered a report providing an update on the current status of the reconciliation of Guaranteed Minimum Pensions (GMP) between HM Revenue & Customs (HMRC) records and those of the ESPF.

12.2 JB confirmed that the fee for ITM to carry out the second stage of the GMP reconciliation was commercially sensitive but was a relatively small portion of the £120,000 budget the ESPF has put aside for 2017/18 for GMP reconciliation. The cost of ITM's services was lower than its market rivals, and other users had provided good feedback about the service ITM provides. Business Operations has negotiated with ITM on behalf of the six pension funds it provides administration services for, and is confident that the price is competitive. JB clarified that the first stage of the GMP reconciliation, completed by ITM, had cost £4,000.

12.3 The Chair expressed concern that there was still no indication as to the extent of the ESPF's liabilities. He also expressed concern that the administering authority was doing work that should be HMRC's responsibility and doubted whether the process would be complete by the deadline of December 2018, unless HMRC committed sufficient resources. The Chair noted that deadlines for completing the reconciliation process were now tighter than they had been at the completion of the first stage of the reconciliation. He also queried what other administering authorities were doing to reconcile their GMP records with HMRC's.

12.4 JB estimated that 60% of administering authorities had not yet commenced the second stage of the process. He explained that the response time for HMRC was about three months and the purpose of the proposed 'fast-tracked' ITM project was to get ahead of the potential

queue of administering authorities requesting records from HMRC. He said that a handful of administering authorities had gone through the second stage of the process but had not yet completed the third stage of rectification, and so had not published the extent of their liabilities – although they would likely do so within the next 12 months.

12.5 BR said that he was relieved that the cost of the second stage was less than the allocated budget. However, he expressed concern about the progress of the reconciliation process since the Pension Board last considered it in February 2016, given the potentially significant financial liability GMP could impose on the ESPF. He asked whether the potential budget of £500,000, identified by the consultancy firm AON during a previous pension training session, was realistic.

12.6 JB said that further work would be required both to complete Stage 2 and also to carry out Stage 3 (rectification) but he expected the overall costs to be well under £ 500,000. He accepted that the reconciliation process was not as far along as hoped, due in part to the delays in the publication of the Norfolk framework for LGPS pensions administration support services, and the subsequent decision by the framework team to remove the pricing catalogue. However, he remained confident that there was more than enough time to complete the process before the end of 2018.

12.7 Tony Watson (TW) asked whether individual pensioners would face any liabilities should the GMP reconciliation result in them having received an overpayment. JB clarified that the Treasury's advice was that if an individual pensioner has been overpaid that their pension is corrected going forward, but not recovered in arrears. He added that there is no statutory basis for pension funds not to pay underpayments and the Treasury advises that back pay is received from the day the GMP miscalculation was made. TW said that the ESPF should bear the cost of any pensioners' arrears.

12.8 SM asked whether officers were confident that the project management of the second stage of the GMP reconciliation is robust. JB said that Business Operations was looking at the viability of appointing an interim project manager to oversee the project. He confirmed that they would not be employed on a consultant's rate.

12.9 The Chair summarised that the Board was disappointed that it had not received more updates on the progress of the GMP reconciliation, but that the Board agreed with the proposals to move the project forward and wanted to be kept well informed of future progress.

12.10 The Board RESOLVED to:

1) note the report;

2) to recommend to the Pension Committee that, in the interests of moving the GMP reconciliation project forward, it endorses the officer action taken to have ITM conduct a 2 month project to reconcile and submit queries to HMRC;

3) to request regular updates on the progress of the second stage of the GMP reconciliation, to include ITM's progress reports, and a full report when the GMP liability of the ESPF is known.

13 OFFICERS' REPORT - BUSINESS OPERATIONS

13.1 The Board considered an update from Business Operations.

13.2 JB clarified that the online Annual Benefits Statement system is robust and uses the same calculations, and the same information from employers, that Pension Administration Team uses to calculate benefits. The system relies on the primary input being correct and there are the appropriate waivers in place to inform employers when they submit the information.

13.3 The Board RESOLVED to note the report.

14 OFFICERS' REPORT - GENERAL UPDATE

14.1 The Board considered a general update on pension fund business.

14.2 The Board RESOLVED to note the report.

15 WORK PROGRAMME

15.1 The Board considered a report about its work programme.

15.2 The Board RESOLVED to note the report subject to the inclusion of the additional reports and training agreed during the course of the 26 June meeting.

The meeting ended at 12.40 pm.

Richard Harbord
Chair