Minutes of the Pensions Committee Meeting held on 7 July 2017

Present: Robert Marshall (Chairman)

Attendance	
Ben Adams	Geoff Locke (Co-Optee)
Philip Atkins, OBE	Mike Sutherland
Derek Davis, OBE	Stephen Sweeney
Ann Edgeller (Vice-Chairman)	Martyn Tittley
Colin Greatorex	

Also in attendance: Ian Jenkinson and Christina Washington (Pensions Board Members)

Apologies: Kevin Upton and Sue Insull.

PART ONE

13. Declarations of Interest

There were no declarations of interest on this occasion.

14. Minutes of the meeting held on 16 June 2017

RESOLVED – That the minutes of the meeting of the Pensions Committee held on 16 June 2017 be confirmed and signed by the Chairman.

15. Pensions Business Plan 2016/17 Outturn

The Director of Finance and Resources presented the Pensions Business Plan outturn for 2016/17 and indicated that the final position against the plan showed that the majority of planned activities had been achieved or were in progress. (Those in progress would be carried forward into the 2017/18 Business Plan.) Key achievements during 2016/17 included:

- Completion of the Triennial Valuation;
- Full Health Check against the Pension Regulators Code of Practice 14; and
- Issue of the Annual Benefit Statements by 31 August 2016.

90% of performance targets had been achieved in 4 of the published 15 standards and:

- 9 out of the 15 published standards had either maintained performance levels or improved compared to 2015/16 levels.
- If the target measure was set at 80% then this would mean that 8 of the published 15 standards would have been met.
- The outturn report providing monthly volumes showed that the average monthly volumes had increased in 11 areas.

It was however noted that the Committee had previously received reports predicting that performance standards would reduce for 3 key reasons:

- The introduction of a more complex Pension Scheme on 1 April 2014;
- An increased number of Scheme employers; and
- Difficulty in recruiting experienced employees.

The fragmentation of the County Council's payroll provision had also had a significant impact on the performance of the administration team.

With regard to staffing, it was noted that the number of full-time equivalent staff in the pension's team had increased from 37.50 in 2014/15 to 40.58 in 2015/16 and to 44.8 in 2016/17. However, the new members of the team had been transferred from the Shared Service Centre and had no previous pension's administration experience. Once these new members of staff were fully trained, the increase in staff numbers should start to show a gradual improvement in the performance figures from next year.

In response to a question from Mr Adams, the Director of Finance and Resources confirmed that the employment of staff with no previous pension's administration experience had resulted in savings being made in staffing costs. Mr Greatorex expressed his disappointment that the 90% of performance targets had been achieved in only 4 of the published 15 standards and added that the Team needed to be "staffed-up" in order to meet changes in demand. He also suggested that a 100% performance target should be the ultimate aim. In response, the Director referred to the difficulties in recruiting experienced staff as the West Midlands Pensions Fund tended to pay higher rates than Staffordshire. The Director also indicated that increasing staffing numbers would have an impact on costs; and that a lot of Funds had performance targets which were less demanding than those for Staffordshire.

The Committee were informed that as well as undertaking their day to day accounting and contract monitoring activities, the investment team were kept busy during the year with several time consuming projects:

- Work on the creation of LGPS Central had increased significantly over the last 12 months, following the approval of the July 2016 business case, by DCLG. Several members of the team had been involved in the design and set up of the LGPS Central pool and it was envisaged that this work would continue to take up considerable time and resource until well after the pool came into operation on 1 April 2018.

- A decision taken in 2015/16 to disinvest from the Fund's Diversified Growth Funds and invest into an alternative asset class known as Private Debt, saw implementation work continue well into 2016/17, when commitments to several Private Debt funds were made.

- Later in the year, contracts were terminated with two of the Fund's active global equity managers, due to persistent underperformance of the benchmark. With pooling on the horizon, rather than undertake a search for new active equity managers, the Fund transitioned the assets to passive equity management. This was with a view to returning to active equity management once the LGPS Central Limited active global equity sub-fund was set up; currently planned for April 2019.

The Committee also received detailed comparisons of the following costs for 2014/15, 2015/16 and 2016/17

- Administration costs
- Oversight and Governance costs
- Investment Management costs

It was noted that:

- Total Oversight and Governance costs had increased in 2016/17. The cost of actuarial advice had increased relative to 2015/16 due to the Triennial Valuation undertaken by the actuary. Governance expenses in 2016/17 were in line with those for 2015/16. 'Other' costs had increased due to the Fund's share of LGPS Central set up costs; albeit a large proportion of these would be recharged back to the business in 2018/19.
- Investment management costs reduced in 2016/17. This was mainly due to the following: (i) the full year effect of reduced passive equity management fees, as negotiated in the 7 Shires agreement of December 2015; and (ii) negotiated fee holidays and subsequent termination of contracts with two global active equity managers, with re-investment in passive equity management at a reduced cost.
- The market value of the Fund's assets had increased over the last 12 months by over 20%; and despite the majority of the Fund's investment management fees being based on the value of the assets under management (AUM), the overall level of fees paid had reduced. Furthermore, very few managers outperformed their benchmark in 2016/17 and as a result performance fees paid to managers had remained fairly stable.

RESOLVED – That the 2016/17 outturn position be approved.

16. Risk Register

The Committee considered a report of the Director of Finance and Resources on the contents of the Pension Fund Risk Register which included both high level and emerging risks.

It was noted that at the meeting of the Committee held in October 2015, a set of objectives had been agreed which focussed on four key areas of activity for the Fund: Governance, Funding, Administration and Investment. These four areas had formed the basis for the development of a comprehensive set of risks.

It was suggested that the risk register should become a standing item on the Local Pensions Board (LPB) agenda with one of the four key areas of activity being reviewed by the LPB in detail at each of their meetings. The LPB could work with officers in the interim, as required, to drill down into the detailed risks and gain an understanding of the controls in place and the various sources of assurance. Any areas of concern should be brought to the attention of the Committee at their next meeting. An annual review of the high level risks should be undertaken by the Pensions Committee, irrespective of the work of the LPB.

In response to a question from Mr Greatorex in relation to how the risk register was laid out, the Director of Finance and Resources indicated that the Pensions Board would also be requested to look at if the lay-out of the information could be improved to include proposed action plans to mitigate risk.

In response to a question from Mr Davis in relation to safe-guarding the Fund's interests under the proposed asset pooling arrangements with LGPS Central, the Director explained that the process of establishing the Pool was being well-managed and that Staffordshire had been actively involved in ensuring that good governance arrangements were being put in place. Risks around pooling had been identified and were included on the Pension Fund's risk register.

Mr Jenkinson undertook to seek the views of the Pensions Board as to whether they would be willing to accept the Committee's request for the Board to undertake a more detailed review of the Pension Fund Risk Register. He also indicated that, in its Annual report for 2016/17, the Board had indicated that "they currently have no concerns about the Staffordshire Pension Fund, its administration or the newly created LGPS Central."

RESOLVED – (a) That the contents of the Pension Fund Risk Register, including both high level and emerging risks (as detailed in Appendices 2 and 3 to the report considered by the Committee), be noted.

(b) That the Local Pensions Board be requested to undertake a more detailed review of the Pension Fund Risk Register and report back to the Committee on any issues or areas of concern arising from the review.

17. Exclusion of the Public

RESOLVED - That the public be excluded from the meeting for the following items of business which involve the likely disclosure of exempt information as defined in the paragraphs of Part 1 of Schedule 12A of the Local Government Act 1972 indicated below

PART TWO

The Committee then proceeded to consider reports on the following issues:

18. Exempt minutes of the meeting held on 16 June 2017
(Exemption paragraph 3)

19. Pooling of LGPS Investments
(Exemption paragraph 3)

20. Pensions Administration - Admitted Bodies
(Exemption paragraph 3)

Chairman