



MINUTES OF THE PENSION BOARD

Held on Tuesday 13 December 2016 at 6.45 pm

PRESENT: Mr David Ewart (Chair), Councillors Crane and Kabir, Angela Cattermole, Trevor Dawson and Euton Stewart

1. Apologies for Absence

Apologies for absence were received from Bola George.

2. Declarations of Interests

The Chair declared that he and David Veale (the Council's Director of HR and Organisational Development, who was present at the meeting) had previously worked together at the London Borough of Ealing.

There were no other interests declared by Members.

3. Minutes of the Previous Meeting

RESOLVED that the minutes of the previous meeting, held on 27 July 2016, be approved as an accurate record of the meeting.

4. Matters Arising (If Any)

The Chair noted that the *Communication of Pension Board business back to employees and scheme members*, which was mentioned under the matters arising from the previous meeting, would be discussed at the next meeting of the Pension Board.

The Chair also stated that both the update on the performance of Capita and the Re-Enrolment Update, which were due to be resubmitted separately at this meeting, had both been incorporated into the content of the report on Capita's LGPS Pension Administration Performance (agenda item 10 of this meeting).

5. Breach of Internal Regulations

Gareth Robinson (the Council's Head of Finance) introduced the report, which notified Pension Board members of a breach of internal regulations. The Board heard that the Council's current statutory Statement of Investment Principles outlined that no more than 35% of the Pension Funds' unit trusts (shares) would be managed by any one body. However, in the first quarter of 2016, the Pension Fund added to its tracker funds (a type of investment fund) beyond the 35% amount allowable with an individual body. This investment was known to be temporarily breaching internal regulations, but was not explicitly reported in the minutes during the February Pension Fund Sub-Committee meeting. Gareth Robinson outlined that whilst the investment into the tracker funds had been appropriate in the sense that it didn't break any of the LGPS regulations and much of the growth had happened through

sub-fund performance, it should have highlighted more fully to the Pension Fund Sub-Committee at the time of the investment.

Members of the Board questioned whether the Pensions Fund Sub-Committee knew about the breach at the February meeting and what was being done to ensure that a mistake like this did not happen again. Both the Chair and Gareth Robinson agreed that whilst the Sub-Committee was aware that a lot of money was being placed into the LGIM UK Tracker Fund, they did not believe that the Sub-Committee was aware this would cause a temporary breach of internal regulations. Gareth Robinson outlined that much more rigorous internal controls on investments were being put in place to avoid this scenario re-occurring. The Chair added that the independent review of internal audit should offer some reassurance that this type of scenario should be avoidable in future.

Whilst acknowledging the internal controls being put in place to avoid a repeat of a breach not being reported, the Chair asked that the Board's concern that the lack of adequate reporting occurred in the first instance be placed on record.

RESOLVED that:

- (I) The report be noted; and
- (ii) A future report be submitted to update members of the Pension Board once the specified controls on investments were fully in place.

6. Pensions Regulator Questionnaire

The Board considered the content of the Pensions Board Regulator questionnaire which was designed to review the actual governance arrangements of various schemes in the UK. The Chair commented that the questionnaire highlighted how The Pensions Regulator viewed Pension Boards as having an extremely important role in the administration of Pension Funds. He noted that the questionnaire was generic to the public sector, and unfortunately did not include questions on investment, which could be considered to be the Brent Pensions Fund's biggest risk. Members discussed how wide-ranging the scope of the questionnaire was, and agreed that training from the Council's Pension Scheme Manager would continue to be extremely important going forward.

RESOLVED that:

- (i) Members of the Board email Gareth Robinson (the Council's Head of Finance and Pension Scheme Manager) before 5pm on 14 December 2016 if they had any additional comments on the Pensions Regulator Questionnaire; and
- (ii) The questionnaire be submitted at the earliest possible opportunity, which was planned to be 5pm on 14 December 2016.

7. New Regulatory Oversight for Local Government Pension Schemes

The Board considered a report by the Council's Chief Finance Officer, which informed Members of recent changes to the Public Services Pension Act 2013, which had

thereby changed the regulatory framework of the Local Government Pension Scheme (LGPS). In particular, Section 13 of the Act had introduced additional oversight of LGPS Schemes from Central Government via a specific Government Actuary Department (GAD). This included a review of LGPS funding valuations and employer contributions rates to check that authorities were continuing to manage their Pension Schemes appropriately and for remedial steps to be identified and taken by scheme managers where necessary. The Chair stated that he had attended a briefing from the Government Actuary on the changes recently and that this was a highly significant change of which Members should be aware.

A Member of the Committee noted that GAD had stated its current analysis was a 'dry run' based on 2013 local pension fund valuations and questioned when the full report would be ready. The Chair commented that this was typically a long process and would require a lot of data to be gathered and then analysed before an up to date GAD review would be published.

A Member referenced the four key areas that GAD would be assessing LGPS on: Compliance, Consistency, Solvency and Long-Term Cost Efficiency and asked how confident Brent was in its Pensions Fund being judged favourably against these criteria. Gareth Robinson ran through each area in turn, and replied firstly that LGPS funds tended to be very compliant with the regulations. On consistency, he stated that this had been a slight issue because different organisations had different assumptions to GAD on their Pensions Fund base and drew Members' attention to the table on page 58 on the public agenda pack as an example of this. He outlined that GAD viewed Brent as one of the more prudent authorities and less of a risk in addressing its Pensions Fund deficit. On solvency, the Committee heard that Brent was aiming to achieve a 100 percent solvency level and that there was a 19 year strategy in place to achieve this. On long-term efficiency, Gareth Robinson outlined that the Fund had a high contribution rate that meant costs were not pushed off into the future, a planned rate of return consistent with its investments and a realistic timeframe for achieving 100% funding, as reviewed by GAD in the 'dry run' with 2013 data, subject to the standard caveats.

Gareth Robinson also noted that the Fund was well invested in tracker funds, which have lower charges. Choosing to invest through the London CIV was also intended to reduce fees. It was hoped that combining this with higher pension contribution rates over a period of time would aid the Fund's long-term efficiency. He reiterated that the strategic approach of focusing on investments with lower fee structures was seen as less risky and endorsed by the Government.

In response to a Member's question on what the possible negative impact of the new regulatory oversight would be for other employers, which formed part of Brent's Pensions Scheme, Gareth Robinson said that some other employers would be deemed to have a higher level of risk. He noted that some of the possible solutions to this would be either putting guarantees in place to ensure employers met their obligations or raising the contribution rates for their respective employees. The Committee heard specifically that the data quality issues in some smaller admitted bodies and academies, which contributed to their level of risk, was an area that needed to be looked at going forward.

RESOLVED that:

- (i) The report be noted;
- (ii) The Pension Fund would need to comply with the Section 13 process, responding to all queries and requirements of the Government's Actuary Department (GAD); and
- (iii) The results on the review by GAD come back to the Pension Board when GAD had completed its report in early 2018.

8. Triennial Review

Gareth Robinson introduced the report, which had previously been discussed by the Brent Pensions Fund Sub-Committee and had been brought to the Pension Board for information purposes. The Triennial Review process aimed to identify the Pension Fund's overall funding level and highlight any differences over a three-year period. This then informed a stage of modelling different financial scenarios to assist the setting of contribution rates for various employers for the period 2017/18 through 2019/20.

Gareth Robinson informed the Board that, unfortunately, whilst this modelling process was ongoing, very recently some of the data relating to the career average revalued earnings (CARE) fund calculations had been determined to be incomplete and potentially inaccurate. The local government pension scheme bases calculation of pension earned from April 2014 was based on average earnings and not final salary. He explained that the valuation was not able to be completed until the data had been reviewed and corrected if necessary. As such, it was not possible currently to approve the draft Funding Strategy Statement or enable the Chief Finance Officer to finalise the contribution rate for the Pension Fund. Members acknowledged that this was disappointing as it had delayed the progress being made in the review process.

A Member of the Committee questioned if there was an estimated timeframe for this to be rectified to allow the contribution rate to be set. Gareth Robinson responded that this was not possible yet but it was hoped that it might be possible in January 2017, before the Council's Budget in February 2017.

RESOLVED that:

- (i) The report be noted; and
- (ii) An update be provided to the Board at the next meeting.

9. Actuarial Contract Re-Procurement

Gareth Robinson introduced the report, which noted that the actuarial contract ended in April 2017. It was noted that this timeframe conflicted with the Triennial Review process. The Committee heard Officers had proposed that, in future, the actuarial contract be scheduled to end in September/October to ensure it took place after the Triennial Review and end of year accounts which also avoided any potential conflicts of interest. Gareth Robinson stated to the Pensions Board the approximate contract value over three and a half years would likely be over £500k. He stated that it was a very important contract as a source of advice on the long-term strategy for the

Pensions Fund, but that the timescales needed to be modified for the next contract procurement process.

Members questioned whether there were any additional changes to the detail of the contract to be expected and whether the contract would change due to the Council being part of a Collective Investment Vehicle (CIV). Gareth Robinson stated that further changes were not likely and it was simply the timescales which needed to be different. He added that the contract was not within the CIV so wouldn't be affected by this.

RESOLVED that:

- (i) The report by noted; and
- (ii) The Board's recognition be placed on record that the quality of the information that the authority received from the actuary within this contract was of the utmost importance.

10. Capita's LGPS Pension Administration Performance 2016

David Veale (the Council's Director of HR and Organisational Development) introduced the report, which reviewed the performance during the contract year October 2015 – September 2016 of Capita Employee Benefits. This company provided pension administration services for Brent's local government pension scheme. As the Pension Board had already heard, the Pension fund was managed separately.

David Veale began by explaining that the LGPS was a contributory Career Average Revalued Earnings (CARE) Defined Benefit Scheme. He outlined that one of the significant issues with Capita's administration of the Pensions Fund was that some of the 2015/16 data relating to the 'CARE funding pots' appeared to have not been included as part of data supplied to be analysed for the Triennial Review process. The Board heard that this was a troubling occurrence and that the Council had addressed this with Capita as a matter of real urgency and that significant steps were being taken to ensure that correct data was supplied.

David Veale also noted that another issue that had arisen was that 782 delayed Annual Benefit Statements (section 5.4 of the report) had not been sent out to active members by Capita, despite the agreed 30 November 2016 deadline, which was already late. There were also a number of Annual Benefit Statements, which had been sent out, which had inaccuracies, although these were in a minority. David Veale specified that the matter arising was that the Council would now have to contact The Pensions Regulator to state that there had been non-compliance in sending out the Annual Benefit Statements. With regards to the Scheme's deferred members (employees who have left the Council), he noted that there was an additional problem whereby there were a high number of deferred members without a current address on either the Council's or Capita's records and therefore couldn't be sent their Annual Benefit Statements. This was almost inevitable as it was the responsibility of the deferred member to inform the LGPS when they changed address and this regularly did not happen. He again noted that the Council and Capita were exploring the potential actions to address this. David Veale concluded that an underlying issue was the performance issues around timeliness involving

payments (section 4.3 of the report) and that the Council would be considering all of these issues before any discussions on contract renewal with Capita next year.

The Board acknowledged these performance problems with Capita and expressed its frustration at the errors which had been described. One Member of the Board offered their own anecdotal experience of their Annual Benefit Statement being issued with errors and Capita's interface being more difficult for smaller employers to use. There were also discussions over Capita's relocation of Brent's Pension Administration from Surbiton to Darlington as being a key potential reason for the some of the mistakes being made. It was agreed that the most important point going forward would be how the Council continued to address these issues.

RESOLVED that:

- (i) In noting the report, the Board record its deep concern at the ongoing performance problems with Capita in administering Brent's Pensions Fund;
- (ii) A report providing an update on Capita's administration performance be provided at the next meeting of the Pension Board; and
- (iii) Any review from The Pensions Regulator on these issues also be provided at a future meeting of the Pension Board.

11. Exclusion of Press and Public

There were no members of the press or public present at the meeting to exclude for discussion of exempt items. The discussions which related to the exempt sections of the agenda pack have not been included in this set of minutes.

12. Any Other Urgent Business

The Chair asked that Pension Board members look at prospective training dates in January/ February 2017 which were circulated informally before the meeting.

13. Date of the Next Meeting

The Chair proposed that, subject to approval from the Head of Executive and Member Services, the next scheduled meeting of the Pension Board (2 February 2017) be postponed until an appropriate date in early March 2017 to allow for a more comprehensive update on some of the issues addressed within this meeting.

The meeting was declared closed at 8.17 pm

MR DAVID EWART
Chair