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AT A MEETING of the Hampshire Pension Fund Panel and Board of HAMPSHIRE COUNTY COUNCIL held at Mitchell Room, Ell Court, Winchester on Thursday, 28th July, 2022

PRESENT

Chairman:

* Councillor Mark Kemp-Gee

Vice-Chairman:

* Councillor Tom Thacker

Elected members of the Administering Authority (Councillors)

| | |
|------------------------------|---------------------------|
| * Councillor Alex Crawford | * Councillor Andrew Joy |
| Councillor Alan Dowden | * Councillor Derek Mellor |
| * Councillor Jonathan Glen | * Councillor Rob Mocatta |
| * Councillor Dominic Hiscock | |

Employer Representatives (Co-opted members):

* Councillor Steve Leggett, Employer Representative - Southampton City Council
* Councillor Judith Smyth, Employer Representative - Portsmouth City Council
* Cllr Paul Taylor, Employer Representative - HLOWLGA
* Liz Bartle, Employer Representative - Other Employer

Scheme Member Represented (Co-opted members):

* Dr Clifford Allen, Scheme Member Representative - Pensioner Member
* Neil Wood, Scheme Member Representative - Active Member
* Lindsay Gowland, Scheme Member Representative - Deferred Member

Independent Adviser:

* C. Dobson

*Present

Also present with the agreement of the Chairman: Councillor Davies as an observer

67. APOLOGIES FOR ABSENCE

Cllr Dowden sent his apologies.

68. DECLARATIONS OF INTEREST

Members were mindful that where they believed they had a Disclosable Pecuniary Interest in any matter considered at the meeting they must declare that interest at the time of the relevant debate and, having regard to the circumstances described in Part 3 Paragraph 1.5 of the County Council's Members' Code of Conduct, leave the meeting while the matter was discussed,

save for exercising any right to speak in accordance with Paragraph 1.6 of the Code. Furthermore Members were mindful that where they believed they had a Personal interest in a matter being considered at the meeting they considered whether such interest should be declared, and having regard to Part 5, Paragraph 4 of the Code, considered whether it was appropriate to leave the meeting whilst the matter was discussed, save for exercising any right to speak in accordance with the Code.

Cllr Smyth & Cllr Leggett declared that they were both members of the trade union UNISON with regard to items 11 and 12 of the agenda that UNISON had previously made representations on.

69. CONFIRMATION OF MINUTES (NON-EXEMPT)

The minutes of the Pension Fund Panel and Board held on 25 March 2022 were confirmed.

70. DEPUTATIONS

There were no deputations.

71. CHAIRMAN'S ANNOUNCEMENTS

The Chairman welcomed new Members of the Committee; Cllr Smyth from Portsmouth City Council and Cllr Leggett from Southampton City Council. Cllr Smyth will be the employer representative for the coming year, and Cllr Leggett the deputy. Cllr Kemp-Gee thanked Ms Sarah Manchester who has stepped down as the deputy scheme member representative, and Dr Liz Bartle who will be stepping down as an employer representative at the end of the year. The Pension Fund will shortly be seeking applications for their replacements.

The Chairman reminded Members that following changes agreed by the ACCESS Joint Committee there will be the opportunity for Pension Board observers to attend the Joint Committee. Two representatives from Hampshire are invited to the Joint Committee meeting on 5 December 2022.

The Chairman thank Members for the recent training they had undertaken, particularly the progress being made with the Hymans online modules, which the Chairman reminded Members that they had previously agreed they would all complete the modules in a year (by December 2022) when it was agreed to commission the training. Cllr Kemp-Gee reminded members there were opportunities for members to put themselves forward for the training at the LGC Investment and Pensions Summit, Ballie Giffords' Local Government Conference and the LGA Fundamentals Course. The Chairman Informed Members that Training Needs Analysis forms (TNAs) will shortly be sent to Members for their completion to identify the training requirements for the committee for the coming year.

The Chairman informed the Panel and Board that he, along with the Director of Corporate Operations and Pension Fund Officers met with Christine Holloway from the Hampshire Pension Fund Divest group to discuss the Pension Fund's Responsible Investment Policy. The Chairman added that he would meet with any other bona-fide group to discuss relevant matters.

72. ACCESS JOINT COMMITTEE - MINUTES OF MEETING ON 7 MARCH 2022

The Panel and Board received the (non-exempt) minutes of the ACCESS Joint Committee on 7 March 2022.

73. GOVERNANCE: RESPONSIBLE INVESTMENT SUB-COMMITTEE APPOINTMENTS

The Panel and Board considered a report of the Director of Corporate Operations (item 6a in the Minute Book) for appointments to be made to the Pension Fund's Responsible Investment Sub-Committee.

RESOLVED:

- (a) That Cllrs Kemp-Gee, Thacker, Mocatta, and Hiscock, Dr Allen and Cllr Smyth were appointed to the Responsible Investment Sub-Committee.
- (b) That Cllrs Mellor, Dowden, Dr Bartle and Ms Gowland were appointed as deputies to the Responsible Investment Sub-Committee.

74. GOVERNANCE: INTERNAL AUDIT REPORT AND OPINION

The Panel and Board received and noted a report of the Director of Corporate Operations (item 7 in the Minute Book) providing the Pension Fund Panel and Board with the Chief Internal Auditor's opinion on the adequacy and effectiveness of internal control of the Pension Fund. 'Substantial Assurance' can be placed on the Pension Fund's framework of governance, risk management and management control and audit testing has demonstrated controls to be working in practice.

75. GOVERNANCE: INTERNAL AUDIT 2022/23 PLAN

The Panel and Board received and noted a report of the Director of Corporate Operations (item 8 in the Minute Book) providing the Pension Fund Panel and Board with the Internal Audit Plan for 2022/23 for the Pension Fund. The aim of internal audit's work is to provide independent and objective assurance to management, that the frameworks of governance, risk management and management control are appropriate and operating effectively, and risks to the achievement of the Pension Fund's objectives are identified, assessed and managed.

76. **GOVERNANCE: PENSIONS ADMINISTRATION UPDATE**

The Panel and Board received a report from the Director of Corporate Operations (Item 9 in the Minute Book) on the administration of the Pension Fund in 2021/22. Pension Services have performed well against the four key measures for good administration in 2021/22. The 2021/22 administration cost per member was £12.82 (£12.57 in 2020/21). The increase in cost from the previous year was due to the work on the McCloud remedy for which the Fund's share was £62,000 (32p per member). There will be further costs of the McCloud remedy over the next two to three years. In addition, the Fund will also incur costs in 2022/23 on two further projects; pension dashboards and GMP rectification.

The McCloud remedy project has continued with the large majority of employers having provided data for the period 1 April 2014 to 31 March 2021. Returns for the period 1 April 2021 to 31 March 2022 have in the main been delayed as employers have prioritised end of year queries.

Employers have provided their annual returns to Pensions which provides information on active members and is used to produce annual benefit statements and valuation data. All these returns have been uploaded onto the pension administration system, although there has been a higher level of queries raised this year due in part to employers experiencing resourcing pressures.

It was confirmed at the meeting that the table in paragraph 10 on page 49 had an incorrect subtotal. The correct table is shown below.

| Employer Type | Employers | Member type | | |
|---------------------------------|------------|----------------|------------------|-------------------|
| | | Active members | Deferred members | Pensioner members |
| Scheduled | 192 | 59,108 | 80,061 | 45,166 |
| Resolution | 56 | 308 | 230 | 241 |
| Admitted | 73 | 1,506 | 1,174 | 1,211 |
| Community admitted | 10 | 52 | 294 | 392 |
| Transferee admitted | 19 | 70 | 274 | 254 |
| Active employers total | 350 | 61,044 | 82,033 | 47,264 |
| Councillors (no active members) | 10 | 0 | 84 | 134 |
| Ceased (no active members) | 52 | 0 | 229 | 638 |
| Grand Total | 412 | 61,044 | 82,346 | 48,036 |

This error also meant that the percentages detailed in paragraphs 5, 30 and 31 of the report were incorrect. These should have read that 40% of pensioners have now registered for the Portal (not 43%), 26% had opted to receive annual paper payslips and P60s (not 28%) and 34% had neither registered nor opted out (not 29%). The errors did not impact on the point of paragraphs 30 and 31 which was to identify a cohort of pensioners (34%) who had not engaged with the Fund either by opting for a paper payslip or registering for the Portal. Officers confirmed the intention to contact this group to reiterate the options available to them. A new reporting facility has been developed so that use of the Portal can be monitored to inform future developments and communications.

Work on reviewing cyber security has continued over the last six months with the results of the first annual vulnerability assessment now with the software supplier and Hampshire IT for consideration. No critical, high or urgent vulnerabilities were identified by the exercise.

At the start of 2022, the Department for Works and Pensions (DWP) consulted on draft regulations to establish Pension Dashboards. Pension Dashboards will allow individuals to go to a single website and receive details of all the pensions they hold across UK pension providers, including public sector schemes. Hampshire's staging date will be 30 September 2024, by which time the Pension Fund must be able to connect to the dashboard and respond to data requests, although dashboards will not be live and available to individuals until the majority of pension providers have connected. Preparations for the Pension Dashboards programme have commenced with officers attending webinars and training sessions to understand the statutory requirements for this project. Civica are undertaking their preparatory work to be able to connect the system with dashboards in line with the defined project timescales.

In December 2019, the Panel and Board were updated on the progress of the GMP reconciliation project for the Fund which was nearing completion of the first, reconciliation, stage. The project was then paused while Civica developed the required software solution for importing the matched GMP values into UPM. Following the completion of the 2022 pension increase, the project can now move to the second stage; rectification. This stage involves calculating and correcting the under and over payments which have occurred due to the discrepancy in the GMP values held by HMRC compared to those held by the Fund.

GMP values need to be corrected for all membership statuses, however the key group is pensioner and beneficiary members who are currently receiving pension payments from the Fund. The initial data pass suggests that just under 35% of the group are currently being overpaid because the GMP held on the member's record is incorrect. The total overpayment (i.e. the total of all overpayments since the pensions for affected pensioners have been in payment) is approximately £2.2m. Once these records are corrected, the Fund will reduce its ongoing liabilities. Conversely it is anticipated that the Fund has underpaid pensions by around £400,000 in total and these pensions will be increased, with the increase backdated from when the pension came into payment. the Pension Ombudsman has been clear that it would

be inappropriate to claim overpayments in situations where members would have been unaware they were being overpaid. The correction of pensions which are higher than they should be will be done so that the reduced pension comes into payment in April 2023. All affected pensioners will be written to in advance of the reduction.

RESOLVED:

- (a) That the Panel and Board agreed in principle that:
- all records will be corrected to show the correct GMP value,
 - all underpayments greater than £1 per annum will be repaid to the member,
 - if the underpayment is less than £1 per annum, the record will be corrected but no contact will be made with the member, and
 - no attempt will be made at recovering overpayments

The Panel and Board agreed to delegate authority to the Director of Corporate Operations to consider any special cases which may emerge when the detailed assessment of the records is made.

That the remainder of the report, including the strong performance of Pension Services in 2021/22, was noted and that the forecast cost per member will increase in 2022/23 due to the work associated with the three statutory projects; McCloud, Pension Dashboards and GMP rectification.

77. **GOVERNANCE: TRIENNIAL VALUATION**

The Panel and Board received and noted a report from the Director of Corporate Operations (Item 10 in the Minute Book) on information about the 2022 actuarial valuation process. Work is underway for the current valuation which is as at 31 March 2022. Membership data will be supplied to the Fund Actuary by 21 July 2022 and initial whole of Fund results will be presented to the Panel and Board by the Actuary at their meeting on 30 September 2022 before being shared with employers at the Annual Employer meeting in October. Initial individual employer results will be provided to all employers by the end of December 2022, with the rates and adjustments certificate being finalised by 31 March 2023. New contribution rates are payable from 1 April 2023.

The Director reminded the committee that one of the three aims of the Fund as set out in the Funding Strategy Statement is to enable primary contribution rates to be kept as constant as possible (subject to the administering authority not taking undue risk). It is with this aim in mind that the key assumptions used in the valuation are determined. The Actuary has done initial work on the assumptions that will be used at the valuation:

- Agreeing the best fit market data for demographic assumptions from the latest version of the CMI mortality tables published in March 2022.

- Determining the likely funding target for different groups of employers, which will remain unchanged from the 2019 valuation for employers in the Scheduled Body Group.
- Agreeing the CPI and pay growth assumptions, which is 2.3% plus a one-off uplift on the scheduled body funding target for the short term inflation to take account of the 2022/23 pay award.

From the work already carried out by the Actuary, it is anticipated that there will be a material improvement in the funding level at a whole of fund position compared with 2019, due to the higher than assumed asset returns. This means that secure scheduled bodies should be able to bank the deficit contribution reduction from the 2019 valuation and still see stable contribution rates at the 2022 valuation; this of course is a provisional view at this stage subject to confirmation once the valuation work is complete. However, given the significant falls, employers with a funding target linked to gilts such as the Higher Education/Further Education sector may see increases in their contributions at this valuation.

78. **GOVERNANCE: DEPUTATIONS TO THE PANEL AND BOARD**

The Panel and Board received a report from the Director of Corporate Operations (Item 11 in the Minute Book) proposing amendments to the rules regarding deputations made to the Pension Fund Panel and Board and its sub committees. The current deputation rules preclude deputations being received at Panel and Board meetings from scheme members (active, deferred and retired) of the Hampshire LGPS who live outside of the Hampshire County Council area (including in Portsmouth or Southampton). To ensure fairness and reasonable opportunities for engagement, it is considered that members of the Hampshire Local Government Pension Scheme who live outside of Hampshire should be allowed to make deputations to the Panel and Board, or its sub committees. In order to enable this, the County Council's Standing Orders and the Panel and Board's Terms of Reference need to be amended.

RESOLVED:

- That the Pension Fund Panel and Board recommends the proposed changes to the County Council's Standing Orders set out at Appendix 1 of the report to Cabinet for its endorsement and recommendation to the County Council for approval.
- That the Pension Fund Panel and Board recommends the proposed changes to the Pension Fund Panel and Board's Terms of Reference, as set out at Appendix 2 of the report, to Cabinet for its endorsement and recommendation to the County Council for approval.

79. **INVESTMENT: RESPONSIBLE INVESTMENT CONSULTATION AND POLICY**

The Panel and Board considered the report from the Director of Corporate Operations (Item 12 in the Minute Book) recommending amendments to the Pension Fund's Responsible Investment (RI) policy following consultation with

scheme members and employers. The Director confirmed that every effort had been made to give every scheme member and employer the opportunity to respond to the consultation, including emailing every scheme member that Pension Services held email addresses for.

The RI policy was proposed for consultation at the Panel and Board's last meeting in March 2022, following the inclusion of updates based on feedback received from the RI consultants Minerva and key areas that have been brought out in Members' discussions and representations from scheme members. The most significant additions to the policy are:

- that the Pension Fund supports the objectives of the Paris Agreement, and believes that keeping a global temperature rise this century to well below 2°C relative to pre-industrial levels is entirely consistent with securing strong financial returns;
- to address Climate Change there needs to be a transition to a low carbon economy, but that must be an orderly transition that is inclusive and does not leave anyone behind – this is referred to as a Just Transition; and
- that the Pension Fund commits to the aim for its investments to have net-zero greenhouse gas emissions by 2050.

The consultation asked a number of questions to test whether the Fund's proposed policy on its climate change aim and approach to fossil fuel companies was clear and understood by respondents. 701 responses were received that showed:

- At least 92% of respondents were aware of important international standards responding to Climate Change.
- 83% understood the rationale to aim for investments to have net-zero greenhouse gas emissions by 2050.
- 67% understood the rationale for not disinvesting from fossil fuel companies at this time.
- 85% understood the rationale for continuing to reduce the climate impact of the Fund's investments by disinvesting from Thermal Coal.

Following the responses received the Director outlined a number of changes being made to the RI policy:

- that the Fund's RI policy be amended to state that the Fund intends its adoption of the Paris Agreement is the aim to limiting temperature rises no more than 1.5 deg C,
- clarifying that the Pension Fund wants its investments to be net zero by 2050 at the latest, and
- to be clear that being net zero in Green-house Gas emissions means scope 1, 2 and 3 emissions.

RESOLVED:

That the responses to the consultation were noted and the proposed updates to the Responsible Investment policy were approved.

80. INVESTMENT: PENSION FUND CASH ANNUAL REPORT 2021/22

The Panel and Board received a report from the Director of Corporate Operations (Item 13 in the Minute Book) on the management of the Pension Fund's cash balances in 2021/22. The Pension Fund receives cash each month from contributions made by employees and employers, and from investment income. The Pension Fund requires a cash balance to be able to pay pensions and other costs. There are rigorous procedures in place to ensure the security of all cash deposits which are managed by the County Council in separate investment accounts for the Pension Fund. These include criteria for the quality of counterparties and limits on the amount that can be placed with any one counterparty as set out in the Pension Fund's Annual Investment Strategy for 2021/22 for cash, which was approved by the Pension Fund Panel and Board on 10 December 2021 and has been complied with.

RESOLVED:

- (a) That the outturn report on the Pension Fund's cash management in 2021/22 was approved.

81. GOVERNANCE: RISK REGISTER

The Panel and Board received a report from the Director of Corporate Operations (Item 14 in the Minute Book) introducing the Pension Fund's Risk Register. The format of the Risk Register has been revised in line with best practice. A more detailed approach has now been implemented with risks identified individually, linked to the Pension Fund's aims from its Business Plan and rated on a scale of 1 to 5. Further amendments are planned for the next iteration of the Risk Register to be included in the 2022/23 Business Plan for December 2022:

- Risks will be separated into strategic and operational, to help identify the greatest threats to the Pension Fund's operation.
- The evaluation of risk prior to implementation of mitigating actions will be included to highlight the effectiveness of those actions.

RESOLVED:

That the amended Risk Register was approved.

82. GOVERNANCE: ANNUAL REPORT AND PENSION FUND COSTS

The Panel and Board received a report from the Director of Corporate Operations (Item 15 in the Minute Book) introducing the 2021/22 draft Pension Fund Annual Report. The Pension Fund's accounts are included in the Annual Report. The accounts are subject to audit and it may therefore be necessary to make minor changes to the Annual Report at the conclusion of the audit. The Annual Report includes details of the Fund's governance, administration, and

investments, as well as the Fund's accounts. The annual report also includes additional information on pooling, including:

- details of the ACCESS pool's annual report
- an update on progress with investment pooling, and
- updates to sections of the report including investment.

The Director reported the total cost of managing the Pension Fund in 2021/22 which was presented based on CIPFA's guidance, which includes additional requirements for the Fund's Annual Report to report on investment management costs for pooled and non-pooled investments. The investment management costs of pooled investments are disproportionately lower than the non-pooled investments because of the different assets in each category. During 2021/22, Hampshire's net cumulative saving from pooling with ACCESS increased to £2.6m.

RESOLVED:

- (a) That the contents of the draft Annual Report for 2021/22 was noted and approved for publication.
- (b) That authority was delegated to the Director of Corporate Operations to make any necessary minor amendments to the Annual Report prior to publication.
- (c) That the remainder of the report, including the total cost of managing the Fund, was noted.

83. **EXCLUSION OF THE PRESS AND PUBLIC**

RESOLVED:

That the public be excluded from the meeting during the following items of business, as it is likely, in view of the nature of the business to be transacted or the nature of the proceedings, that if members of the public were present during these items there would be disclosure to them of exempt information within Paragraphs 3 of Part 1 of Schedule 12A to the Local Government Act 1972, and further that in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, for the reasons set out in the reports.

84. **CONFIRMATION OF THE EXEMPT MINUTES OF THE PREVIOUS MEETING**

The exempt minutes of the Pension Fund Panel and Board held on 25 March 2022 were confirmed.

85. **ACCESS JOINT COMMITTEE EXEMPT MINUTES FROM MEETING HELD ON 7 MARCH 2022**

The Panel and Board received the (exempt) minutes of the ACCESS Joint Committee on 7 March 2022.

86. **ANNUAL REPORT AND PENSION FUND COSTS - EXEMPT APPENDIX**

The Panel and Board considered and noted the exempt appendix from the Director of Corporate Operations (Item 19 in the Minute Book) containing details of the Pension Fund's investment management costs.

87. **INVESTMENT - INVESTMENT UPDATE**

The Panel and Board considered the exempt report from the Director of Corporate Operations (Item 20 in the Minute Book) updating the Panel and Board on the performance of the Pension Fund's investments. [SUMMARY OF A MINUTE WHICH CONTAINS EXEMPT INFORMATION].

Chairman,

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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