Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 12th December, 2014, 2.00 pm

Bath and North East Somerset Councillors: Paul Fox (Chair), Patrick Anketell-Jones, Lisa Brett, Charles Gerrish (Vice-Chair) and Ian Gilchrist

Co-opted Voting Members: Ann Berresford (Independent Member), Councillor Mary Blatchford (North Somerset Council), William Liew (HFE Employers), Shirley Marsh (Independent Member) and Richard Orton (Trade Unions)

Co-opted Non-voting Members: Clive Fricker (Town and Parish Councils)

Advisors: Tony Earnshaw (Independent Advisor) and Jignesh Sheth (JLT Employee Solutions)

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Matt Betts (Assistant Investments Manager), Geoff Cleak (Pensions Benefits Manager) and Martin Phillips (Finance & Systems Manager (Pensions))

32 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

33 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Councillor Mike Drew, Steve Paines and Wendy Weston.

34 DECLARATIONS OF INTEREST

There were none.

35 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

36 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

There were none.

37 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

38 MINUTES: 26 SEPTEMBER 2014

These were approved as a correct record and signed by the Chair.

A Member asked about progress on resolving the overpayment by Bristol City Council and implementing the audit recommendation relating to the automatic notification of staff leavers to IT (previous Minute 25). The Finance & Systems Manager (Pensions) reported that BCC had verbally told him that they had decided not to seek repayment, and that the overpayment would in effect reduce the outstanding deficit. The Chair asked for written confirmation of this to be obtained from BCC. The Head of Business, Finance and Pensions said that the IT issue concerned only agency staff, who at present were not recorded on the Council's payroll system. When their contracts terminated, it was the responsibility of individual service managers to notify IT, so that their access to Council computer systems could be withdrawn. The Council was introducing a new payroll system from April 2015, which would record everyone working for the Council, including agency staff. The issue did not affect Pensions Administration, which did not employ agency staff.

39 REQUEST BY ADMISSION BODY TO EXIT SCHEME

The Investment Manager introduced this item. She said that the Fund's Termination Policy was set out in the report. She introduced two guests from Curo, Donna Baddeley, Executive Director of Corporate Services, and Jane Jones, Head of Human Resources.

Ms Baddeley addressed the Committee. She said she wished to state Curo's current position and update Members on the consultation process that had been undertaken in relation to the proposed exit. She said that Curo was a long-term business, which was under pressure from its own regulator to manage and reduce risk in its external environment. Curo needed to consider how it managed external risk, so that it could continue to deliver a viable business in future. Curo also wished to ensure equity between its employees, who at present were covered by several different pension schemes. About two thirds of employees were in the Group Pension scheme provided by Aviva. As part of the review of pensions provision by Curo advice had been taken from KPMG and Curo's solicitors. Advice had also been taken on consultations with employees. Discussions had taken place with Unison and Unite. Curo had a good relationship with the unions, who had worked closely with Curo on this proposal. Group presentations and one-to-one meetings had been available to employees. Representatives of the Avon Pension Fund and from Aviva had given presentations to employees. Email groups had been established and a set of FAQs had been issued. The Curo Board was determined that the alternative offer to employees through the Group Plan should be a good one. It was proposed that Curo's current contribution offer for all employees would be improved, and the upper level raised from 8% to 10%, with employees increasing their contributions from 4% to 5%. Curo was also offering to pay an additional 4% for the next two years to the affected staff. The Group Pension plan would be included in the flexible benefits offer, so that a salary sacrifice option would also be available. The unions would not advise their members to leave the Avon Pension Fund, but did feel that what was on offer from Curo was very good. 75% of employees had accepted the offer unconditionally.

In reply to a question from a Member, she confirmed that consultations with employees were now complete. Those who had not consented to the new arrangements would be offered re-engagement on the new terms from 1st April 2015.

A Member asked whether the Pensions Benefits team had received enquiries from Curo staff as a result of these proposals. The Pensions Benefits Manager said that members of the team had met Curo staff as part of the consultation process, but he was not aware that the proposals had otherwise generated a higher level of enquiries from Curo staff.

A Member noted that Curo had not stated that their business would not be viable if they remained in the Fund, and asked how Curo was significantly different from other organisations who were not withdrawing from the Fund. After all, it was the aim of the new LGPS to cap employers' costs overall. As for the current inequity between employees, Curo had created that situation when it had decided in 2007 that new employees would not be able to join the Avon Pension Fund. Ms Baddeley said that she could not speak for other organisations. Curo's aim was to secure its financial security for the future, to find the best ways of managing external risk and to maximise its opportunities for investment in social housing, which required keeping costs under control.

The Chair drew attention to paragraph 4.4 of the report, which set out the Exit Policy agreed by the Committee at the meeting of 28 March 2014. He said it was not the role of the Committee to second guess the decisions of the management, but to consider the application from Curo in relation to the policy. He asked whether, having met Curo, officers were able to provide assurance that the policy was being complied with. The Head of Business, Finance and Pensions said that officers been quite explicit about what was required in terms of consultation and that payment of the debt was required in full. The assets would be invested in corporate bonds following exit. Advice had also been taken from the Fund's actuary. Officers were able to assure the Committee that Curo was meeting the terms of the Exit Policy.

A Member asked whether any other member body was contemplating leaving the Fund. The Investment Manager replied that officers were not currently in discussions with other member bodies about their possible exit from the Fund on this basis.

The Investment Manager referred to section 5 of the report, and reminded Members that at the September meeting they had asked for advice on whether the existence of a payment plan could impact on the seniority of debt, and thereby affect the probability of repayment in the event of insolvency after the plan was agreed. Advice had been obtained from the Fund's solicitors and the Fund's actuary and was as set out in sections 5.2-5.4 of the report.

RESOLVED

1. To agree that Curo has effectively managed the employment issues relating to their exit from the scheme, and that the proposal from Curo meets the terms of the Exit and Termination Policies, subject to the payment of the outstanding debt in full on exit.

2. To note the advice regarding the seniority of an admission body's pension debt once a deficit plan is agreed on exiting the scheme.

40 REPORT ON INVESTMENT PANEL ACTIVITY

The Investment Manager presented the report. The Panel had met once since the previous Committee meeting. There were no recommendations to the Committee. After the meeting, the Panel had met two of the Fund's investment managers. A clarification meeting on the appointment of a Diversified Growth Manager to replace Baring's had taken place on 5 December. It had been decided to appoint Standard Life.

RESOLVED to note:

1. The draft minutes of the Investment Panel meetings held on 21 November 2014.
2. The recommendations and decisions made by the Panel since the last quarterly activity report, as set out in 4.1.

41 REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER ENDING 30 SEPTEMBER 2014

The Investment Manager presented the report. A key point was that the funding level had fallen from 87% to 83% since June 2014 (compared with 78% at the March valuation), because bond yields had fallen, increasing the Fund's liabilities. Lower inflation was having a positive impact. The improvement in the funding level since March 2013 was mainly due to investment returns being above expectation, but also to the receipt of the lump sum deficit contributions from the Unitary Authorities in April. The one-year investment return was 9.4%. The performance against the Benchmark was +0.6%, with asset allocation contributing 0.8% to outperformance and currency hedging 0.5%. Manager performance had detracted 0.7% over the year, relative to the strategic benchmark. Two managers had been upgraded from amber to green as reported in Exempt Appendix 3. The Panel would meet Schroder Global Equity Manager, whose performance has caused concern and is being closely monitored, again in March. The performance of Partners is being clarified with WM to confirm whether WM are analysing the data correctly. JLT had confirmed that Partners internal rates of return are in line with expectations.

Mr Sheth commented on the market background and manager performance. There had been positive returns from most equity regions. There were continuing concerns about economic performance in the EU. The outstanding equity region in the last quarter had been the US. The strengthening of the US dollar against Sterling meant that the overall impact of currency hedging had been negative, because the majority of hedging was in US dollars. Gilts and corporate bonds had given positive returns. Inflation was below long-term trends and the price of oil had been falling. The fall in the oil price was explained by lack of demand, partly due to the availability of shale oil in the US, and by the fact that the producers had not responded by cutting supply. Recently there had been some uncertainty in markets, which had caused greater volatility. The aggregate manager performance chart (agenda page 57) showed that Signet and Schroder were below their targets. There had been a significant fall in returns on longer-term (over 15 years) government bonds from 3% at the end of September to 2.5% the previous day.

A Member said that he did not think that a lower oil price would necessarily lead to a higher level of economic activity. Mr Sheth agreed that the oil price was also a reflection of weakness in the world economy.

The Chair noted that the fall in bond yields had a significant impact on the Fund and that the offsetting effect of low inflation was very small.

The Chair noted that he had received a letter from campaigners urging the Fund to disinvest from oil and gas. He had replied in terms similar to the previous reply to the Bristol City Council motion urging disinvestment from tobacco. He would make his reply available to any Member who requested it.

RESOLVED to note the information set out in the report.

41.1 LOCAL AUTHORITY PENSION FUND FORUM ENGAGEMENT REPORT Q3 2014

The Investments Manager presented the report. She said that officers and councillors usually attended the LAPFF meeting and that in future a note from officers about each meeting of LAPPF would be included with this item.

The report covered the period July to September. Since then an issue had arisen in relation to the remuneration package for the incoming Chief Executive at British Gas. Because of investor feedback, British Gas had reconsidered and brought the package into line with their existing remuneration policy. This seemed to have satisfied most investors, but one of the Fund's managers had said that the way British Gas had dealt with this issue had not been good, which may influence their voting at the next AGM.

A Member asked about the palm oil issue (agenda page 86). He wondered whether LAPFF asked companies to observe higher standards than those of the jurisdictions in which they operated. The Investments Manager said she thought LAPFF would apply the standards applicable in the UK when considering the activities of companies in other countries. LAPFF requested a list of investments from each LA pension fund annually and based their activities on these companies.

The Vice-Chair noted that the Chinese press had referred to comments made by LAPFF, which clearly showed that attention was paid to its views.

RESOLVED to note the LAPFF Quarterly Engagement Report.

42 PENSION FUND ADMINISTRATION

The Finance & Systems Manager (Pensions) presented the financial report. He said that the full-year budget forecast, excluding investment manager fees, was £61,000 below budget. This was partly due to the salary savings from the temporary partial secondment of the payroll manager to the Council's payroll section while they undertake a major project. Further forecast savings were due to the secondment of the Projects Officer to Bristol City Council to assist their payroll team on pensions issues. There had also been savings on communications arising from changes in the methods of delivery. Investment managers' fees were forecast to be £410,000 under budget, mainly because the budget included the full year fees for the infrastructure mandate, the appointment for which was not made till late in the year. Cash flow was £60.5 million in excess of the forecast made in the 2013/14 service plan because of the lump sum deficit recovery payments covering up to three years received in April. The full year forecast is £40.9m over budget as the advance payments unwind during the year. The only late payer (Appendix 7) was Filton Town Council. This late payment followed a change of staff at the Town Council. They had been reminded of their obligation to pay by the legal deadline.

The Pensions Benefits Manager presented the performance report. He said that there had been an 86% increase in case workload compared with the previous period. Cases processed within agreed timescales had fallen marginally in the latest quarter as a result, but remained within target. The one area where performance had dropped was in the provision of transfer-out information. This was because of a change in internal procedure for issuing quotes, following the receipt of advice from HMRC about an increase in pension scams. Performance by employers was generally good, except for receipt of early leavers from Bristol City Council. Meetings had taken place with BCC, which identified issues of concern. A member of APF staff had been seconded to BCC to help with support and resolve problems.

The Chair noted that the four Unitary Authorities performance was not compared against the other employers in the Fund. The Pensions Manager confirmed that other medium-size employers could be reported as a collective whole for comparison.

The Pensions Benefits Manager reported that 81% of active membership in the Fund were now covered by electronic delivery of data from employers. The last outstanding unitary, South Gloucestershire, would be going live within the next few months. He commented on the CIPFA benchmarking data (paragraph 11.8 of the report). The Avon Pension Fund spent more on IT than the comparator group, but other funds would be increasing their IT spending in future. The costs of communication per member were reducing because of electronic delivery, but remained higher than the comparator group. He referred to the information about administration cost per member over the last five years given on agenda page 127, which showed that in general the Fund compared favourably with other LA pension funds.

A Member asked about the theoretical upper limit of electronic delivery. The Pensions Benefits Manager replied that 100% would be difficult to achieve, since smaller employers, such as Parish and Town Councils, might have only one or two members in the Fund, and delivery of information would probably only be necessary when an employee left. He hoped that 85-90% could be achieved.

The Vice-Chair noted that the cost of communications per member was not higher than that of other funds, but that the cost per employer was significantly higher. He wondered whether this was because of the number of employers in the Fund, or whether there were other drivers of cost that should be reviewed. Officers thought that this might be due to the provision of pension clinics. The Pensions Benefits Manager said that had been an increase in employer contact in the last three years. However, he thought a better breakdown of employer costs was required. The Chair felt that a higher level of communication costs would be justified, if it resulted in lower costs in other areas. The Pensions Benefits Manager thought that the higher level of contact was improving employer performance.

Members noted that overheads outside of the control of Pensions administration, i.e. those due to Bath and North East Somerset Council, appeared to be relatively high.

RESOLVED to note:

1. Administration and management expenditure for 7 months to 31 October 2014.

2. Performance indicators and customer satisfaction feedback for 3 months to 30 September 2014.

3. Summary performance report for period 1 April 2011 to 30 September 2014.

4. The Risk Register.

43 VERBAL UPDATE OF CURRENT POSITION OF FORTHCOMING REGULATIONS AND CODES OF PRACTICE AFFECTING LGPS

The Investments Manager updated Members.

Pensions Board

The final Regulations were currently expected to be issued in January 2015. The latest draft regulations allowed councillors, other than those already involved in pensions administration, to be members of a Pensions Board. The Pensions Advisory Board had issued draft guidance, which did not fully clarify a number of issues, probably because they were issues on which employers and the unions were still not in agreement. Local Pensions Boards have to be established by 1st April 2015 and hold their first meeting by 31st July 2015. The draft terms of reference and constitution of the Avon Pension Board will be considered by B&NES Council at its January meeting, after which the appointment process will begin. The establishment of the Board is being managed by B&NES' Strategic Director of Resources.

A Member asked whether the unions could be given a copy of the papers that will be going to B&NES Council, since it was a legitimate matter of interest for them as there would be union representatives on the Board. The Head of Business, Finance and Pensions said that it was up to the Strategic Director of Resources whether the papers could be provided to the unions. The regulations allowed some flexibility in the way Pensions Boards were constituted and he understood that funds were taking different approaches to employee representation; some might not involve the unions. The Chair suggested that the unions write to the Strategic Director of Resources requesting the papers. The Vice-Chair suggested that the unions could also register to make a statement at the January Council meeting.

LGPS Investment Arrangements

Nothing had been heard about collective investment vehicles (CIVs). The latest information was that the DCLG was not in favour of compulsory use of CIVs. The decision rested with the Cabinet Office, and no decisions were expected before the General Election.

Budget Changes

The Budget allows increased flexibility for employees to transfer their pension pots. Advice from the Government Actuary was awaited as to how this would happen in LGPS. There would be guidance on pension fund members having to take appropriate advice about transferring their pensions. The Fund would have to make a judgment about whether a member requesting a transfer had received advice from an approved body, but there is still uncertainty as to the Fund's responsibility as to whether the member received correct advice or not.

The Vice-Chair said he was concerned about how the Fund would be able to judge whether advice provided to members in such circumstances was independent and sound. There was a possibility that more vulnerable employees could be the victims of less scrupulous advisors. The Investments Manager said the requirement would actually not specify "advice", but that certain bodies would be authorised to provide this "guidance". The government has appointed a number of organisations, including the CABx, to provide pensions guidance. Kite marks will be issued to bodies approved to issue pensions guidance. If approved guidance had not been obtained, the Fund would not be able to allow the transfer. The Chair asked for a report to be made to the Committee proposing a procedure that the Fund would follow in such cases.

Amendments to LGPS 2014

The Pensions Benefits Manager reported that the DCLG had recently issued draft regulations tidying up details of the LGPS 2014. The Fund would be responding. The Code of Practice from the Pensions Regulator was still awaited.

RESOLVED to note the update.

44 WORKPLANS

RESOLVED to note the workplans.

The meeting ended at 3.38 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services