Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 16th March, 2012, 2.00 pm

Bath and North East Somerset Councillors: Paul Fox (Chair), Gabriel Batt, Nicholas Coombes, Charles Gerrish and Katie Hall

Co-opted Voting Members: Councillor Mary Blatchford (North Somerset Council), Councillor Mike Drew (South Gloucestershire Council), Councillor Mark Wright (Bristol City Council), Bill Marshall (HFE Employers), Rowena Hayward (Trade Unions), Ann Berresford (Independent Member) and Carolan Dobson (Independent Member)

Co-opted Non-voting Members: Clive Fricker (Town and Parish Councils) and Richard Orton (Trade Unions)

Advisors: Tony Earnshaw (Independent Advisor) and John Finch (JLT Benefit Solutions)

Also in attendance: Andrew Pate (Strategic Director, Resources), Tony Bartlett (Head of Business, Finance and Pensions), Matthew Betts (Assistant Investments Manager), Steve McMillan (Pensions Manager), Martin Phillips (Finance & Systems Manager (Pensions)) and Alan South (Technical and Development Manager)

56 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

57 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Steve Paines and Paul Shiner.

58 DECLARATIONS OF INTEREST

The Independent Members, Ann Berresford and Carolan Dobson, and the Independent Investment Adviser, Tony Earnshaw, declared personal and prejudicial interests in respect of Agenda Item 8 “Independent Members and Independent Investment Advisor”. Carolan Dobson also declared a personal interest as Chair of Financial and Regulation Group of the Competition Commission.

59 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

61 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

62 MINUTES: 9 DECEMBER 2012

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

63 INDEPENDENT MEMBERS AND INDEPENDENT INVESTMENT ADVISOR

Ann Berresford, Carolan Dobson and Tony Earnshaw withdrew from the meeting in accordance with their declarations of interest.

The Head of Business, Finance and Pensions presented the report. He reminded Members that the appointment of two Independent Members with voting rights had been a feature of the Fund's governance arrangements since 2006. The Independent Members had been initially appointed for 2.5 years until June 2009, and then for a full four-year term ending in June 2013, so that the appointments would provide continuity over the Council's electoral cycle. As the Fund would experience wide-ranging changes over the next few years, it was proposed that it would be beneficial to have some continuity of independent trusteeship over this period. (Governance guidelines suggest that independent members should not be appointed for more than nine or ten years in total, because of the risk of them losing their independence). One Independent Member had indicated a wish to be reappointed for a new full term, whilst the other would be happy to continue for the short term if so appointed. Recruitment of Independent Members is a lengthy process, and would need to be started well before the end of existing appointments.

One option debated was to extend until the end of 2013 the term of the Independent Member not wishing to be reappointed for a full term, when the Strategic Investment Review and valuation should have been concluded, thus providing the necessary continuity. Turning to the Independent Investment Advisor, he said that the current post-holder had been appointed for a three-year term due to expire in October 2012. The appointment had been made before the appointment of JLT as the Fund's investment consultant, and it appeared that it was not common for LGPS funds to have both independent consultants and independent advisors.

The Chair suggested that in future the appointments of the two Independent Members could be staggered, to reduce the risk of losing both at the same time. This would be facilitated by extending one of the appointments to the end of 2013, with the other staying for a further term. The Committee would then have the benefit of the experience of both the current Independent Members during the next valuation cycle.

There was a debate about whether or not to extend the current term for one Independent Member to the end of 2013 in order to retain their experience over the triennial valuation, following which it was agreed that the term for the one Independent Member should not be extended.

Members then discussed the role of the Independent Investment Advisor. The Chair noted that the recommendation was to extend the current appointment to November 2013. The Investments Manager said that the review of the Investment Strategy would commence in October or November of this year, and that it was hoped to complete it by November 2013. The Chair suggested that “or until the conclusion of the review of the Investment Strategy, if later” should be added to the recommendation at 2.1. Members agreed. The Vice-Chair and Chair of the Investment Panel said that because of the uncertainties facing the Fund over the next couple of years, additional independent advice during this period would be valuable, though he would not wish to suggest that the post should continue indefinitely. A Member asked whether it was the role of the Independent Advisor to provide more than just investment advice. The Investment Manager said that the role was to provide independent investment advice to Members, and, if necessary, to challenge the advice given by officers and the investment consultants. Mr Finch commented that he knew of other local authority pension funds which retained an independent advisor in addition to investment consultants. The Chair suggested that Committee should give weight to the view of the Chair of the Investment Panel about the value of the Independent Advisor in the short term.

After discussion it was **RESOLVED:**

(i) that one of the Independent Members should be re-appointed for a further term of four years and that the appointment of the other should terminate, as planned, in June 2013;

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(ii) that the Chair and Vice-Chair in consultation with officers should arrange a recruitment process to commence in 2012 to recruit a new Independent Member;

(iii) that the appointment of the Independent Investment Advisor should be extended to November 2013 or to the conclusion of the review of Investment Strategy, if later.

64 SERVICE PLAN 2012-2015

Ann Berresford, Carolan Dobson and Tony Earnshaw returned to the meeting. Councillor Hall arrived.

The Head of Business, Finance and Pensions presented the report. He said the next three years would be a period of great change. Externally, there would be significant revisions to the Local Government Pension Scheme, automatic enrolment would be introduced and there would be an increase in the number employers, in particular Academies. There was a need for increased capability on the investments side because of the workload arising from the investments strategy and investments management. In addition, a number of key individuals on the investments and actuarial teams would be retiring and a transfer of knowledge was required. The implications of the revised scheme on the administration and communications teams were not yet clear, but it was hoped that it would be possible to bring proposals to the Committee later in the year.

In reply to a question from a Member about the possibility of partnership arrangements, he said that a number of local authority funds in the South West have established framework agreements to procure legal and actuarial/investment consultancy services.

A Member asked about benchmarking with other local authority funds in terms of cost per fund member. The Head of Business, Finance and Pensions said that the Fund participated in the CIPFA Benchmarking Club and regular data about benchmarking with the Fund's peer group was provided to the Committee. The Fund was generally around the average or just above the average, though it tended to spend more on communications than other funds.

A Member asked where downward pressure on costs would come from. The Chair suggested that it was the Committee's role to be that pressure. A Member said she understood the need to keep staff numbers down, but the fact was that there was an increasing amount of work to be done. One of the responsibilities of the Committee was to ensure that officers had the resources they needed. Another Member suggested that at the same time there was a need to assure Fund members that the administration of the Fund was as efficient as possible. The Chair suggested that they ought to find some assurance in the projected costs detailed in the table on page 29 of the Service Plan. The Head of Business, Finance and Pensions said that every effort was made to reduce costs; £20,000 would be saved on communications in 2012-2013. However, the demands placed on pensions administration was growing all the time. Benchmarking data, however, would demonstrate consistency in terms of cost and performance. The Chair asked for benchmarking data to be included in future Service Plans. A Member expressed concern about the projected increase in investment costs. The Chair said this was driven by an increase in investment managers' fees which are based on an expected 6% increase in value per annum.

RESOLVED (with one abstention) to approve the 3-year Service Plan and Budget for 2012-2015 for the Avon Pension Fund.

65 TREASURY MANAGEMENT POLICY

The Finance and Systems Manager (Pensions) presented the report. He explained that the policy related only to internally-held cash, which was less than 0.5% of the total assets of the Fund. The proposed policy had been revised in consultation with the Council's Treasury Management Team. Higher maximum limits were proposed, because there were now fewer counterparties with the highest credit ratings, but the higher limits would not normally be used. He drew attention to paragraphs 6.1-6.4 of the report, which described the forecast change in the Fund's cash flow profile, on which a report would be made to the June meeting of the Committee.

A Member noted that it was stated in Appendix 2 on agenda page 47 that the lowest credit rating that would be accepted was A-, while page 48 showed that the current credit ratings for existing counterparties was A. The Investments Manager explained that the policy allowed for further possible downgrades in the future. A-would be accepted for UK banks and building societies, but only for counterparties on the Council's approved list, on which there were none rated A- at present. The Finance and Systems Manager (Pensions) explained that limits had been raised to ensure that the cash held could be placed somewhere. A Member said that she was reassured that A- would only be accepted for UK banks and building societies; she would be concerned about accepting A- for any non-UK financial institutions. Another Member said that A- was acceptable, because cash was deposited for very short periods of time, and it was possible to react very quickly to market changes. The Finance and Systems Manager (Pensions) said that the Government's Debt Management Office was not a preferred option for cash deposits, because whilst it was secure, interest rates were low and transaction costs relatively high. A Member expressed the hope that options for placing the Fund's internally-held cash would continue to be explored.

RESOLVED

(i) to approve the revised Treasury Management policy as set out in Appendix 2 of the report;

(ii) to note the forecast change in the Fund's cash flow profile and the policy decisions that will be required as a consequence.

66 CLG CONSULTATION ON AMENDMENTS TO REGULATIONS - VERBAL UPDATE

The Technical and Development Manager gave a verbal update.

He said that negotiations between the unions and DCLG about amendments to the LGPS were ongoing. Unite had rejoined the negotiations after pulling out earlier. It was thought that agreement might be reached in March or April, and regulations drafted in August. He would give a further update at the next meeting.

In response to a question from the Chair, he stated that there would be no increases in contributions for members of the LGPS in April 2012.

RESOLVED to note the update.

67 ADMISSION BODIES - TERMINATION POLICY

The Investments Manager presented the report. She explained that the issue was the treatment of residual liabilities when an admission body left the Fund. The aim of the new policy was to address risk at the beginning, so reducing costs and work for both parties should an admission agreement be terminated. As this change meant a change to the Funding Strategy Statement, the approval of the Committee was required.

Members asked about transfers of staff to Parish Councils. The Investments Manager said that the transfers would normally be subject to a bulk transfer and the pensions liabilities arising in the future for the transferred staff would be the responsibility of the Parish Council. Parish Councils could also decide whether or not to join the Fund. The Chair pointed out that Parish Councils have the power to tax local residents and could do so to finance pensions liabilities.

RESOLVED

(i) to approve the revised Funding Strategy Statement;

(ii) to delegate authority to the Resources Director in consultation with the Chair and Vice-Chair to consider exceptional requests and vary the policy in order to manage exceptional risks which will subsequently be reported to the Committee.

68 ACADEMIES - CLG/DOE GUIDANCE

The Investments Manager presented the report. She explained that the Secretaries of State for Education and for Communities and Local Government had issued a joint Guidance Note on 11 December 2011 stating their concern that some Academies had been "set employer contribution rates significantly more than maintained schools in the local area" and making clear their desire that Academies "should not be treated in the LGPS less favourably than maintained schools." The Guidance Note had recommended that "where an Academy wishes to be pooled, administering authorities positively consider this." The Investments Manager stated that the Fund's officers did not did not agree with the concept of "pooling"; however the Fund's approach to setting contribution rates for the academies was consistent with the principles of pooling, while providing greater transparency to all parties. The Fund would be writing to Academies and LEAs in the area to clarify the Fund's policy.

The Chair felt that as Academies were not guaranteed, they would be receiving preferential treatment if charged at the same rate as guaranteed bodies. There was a real risk that an Academy could close.

A Member thought that two schools in South Gloucestershire listed as Academies in Appendix 2 had considered conversion to Academy status, but had decided in the end not to convert. The Investments Manager said that the information would be rechecked.

RESOLVED to note the information set out in the report.

69 REVISED STATEMENT OF INVESTMENT PRINCIPLES

The Investments Manager presented the report. She reminded Members that the Statement of Investment Principles was approved annually. The revised draft incorporated the active currency hedging mandate, which was implemented during 2011, and amendments to the provisions relating to the realisation of investments.

A Member asked about the recently-announced 100-year bonds and proposals for a national infrastructure investment fund. The Investments Manager suggested that there would be few institutions willing to lend money at current low interest for 100 years. The Fund's preference would be for index-linked investments over a 30-60 year timeframe. As far as the infrastructure fund was concerned, she noted that few public projects were completed on time and within budget and therefore the risk return profile of the fund would determine whether it met the Fund's investment objective. However, investment in infrastructure would be considered as part of the investment review. Mr Finch said that 100-year bonds would in effect be a 30-year bond due to duration, which might be of interest to pension funds. However, the market would value them and investment managers would buy if they appeared attractive, so there was no need to mention them specifically in the Statement.

In response to a question from a Member, the Investments Manager stated that 10% of the Fund was invested in property, with 5% in UK property and 5% in global property.

RESOLVED to approve the revised Statement of Investment Principles.

70 INVESTMENT PANEL MINUTES

RESOLVED to note the draft minutes of the Investment Panel meeting held on 22 February 2012.

71 RECOMMENDATIONS FROM INVESTMENT PANEL

The Investments Manager presented the report.

The Vice-Chair and Chair of the Investment Panel said that the Panel had felt that TT were addressing their past underperformance, but thought they should continue to be kept under review.

RESOLVED that officers will continue to closely monitor TT's performance and report back to the Panel any issues resulting in significant underperformance.

72 REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER ENDING 31 DECEMBER 2011

The Assistant Investments Manager summarised the key facts in the report. He said that the JLT investment report had not raised any significant concerns.

A Member asked about the rebalancing policy between equities and bonds. The Investments Manager replied that this had been suspended in 2011 because of market volatility. The Member felt that the Committee should either amend the rebalancing policy or explicitly note that it had been suspended. Mr Finch pointed out that because of market volatility, adherence to the policy would require repeated tactical switches, which would incur significant transaction costs. Another Member said that if this was the case, then the policy should be reviewed, not simply suspended.

RESOLVED to note the information set out in the report.

73 PENSION FUND ADMINISTRATION - BUDGET MONITORING FOR YEAR TO 31

JANUARY 2012 & PERFORMANCE INDICATORS FOR QUARTER ENDING 31 JANUARY 2012 & STEWARDSHIP REPORT

The Finance and Systems Manager (Pensions) summarised the budget report. The forecast variance for the year was £127,000 under budget. Investment managers' fees were now on budget.

The Pensions Manager summarised the performance report. He said opt-outs remained very low at only 0.14% over an 8-month period.

Before discussing Appendix 7 the Committee passed the following resolution:

> Having been satisfied that the public interest would be better served by not disclosing relevant information, the Committee resolves, in accordance with the provisions of Section 100(A)(4) of the Local Government Act 1972, that the public be excluded from the meeting for this item because of the likely disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Act as amended.

After discussing this item, the Committee returned to open session.

A Member noted that there appeared to have dissatisfaction with the venue of one of the two pensions clinics. The Pensions Manager explained that the venues were provided by the employers. The Chair noted that the satisfaction results for two clinics had been combined into a single table, and asked that if there had been particular dissatisfaction with one of the venues, feedback should be given to the relevant employer.

RESOLVED to note the expenditure for administration and management expenses incurred for the 10 months and performance indicators and customer satisfaction feedback for the 3 months to 31 January 2012 and the Stewardship Report on performance.

74 AUDIT PLAN 2011-2012

Mr Hackett presented the report. He explained that Bath and North East Somerset Council was responsible for preparing the accounts of the Avon Pension Fund. The Audit Plan, attached as Appendix 1 to the report, set out the overall approach and timetable for the 2011/2012 audit. There had been no increase in the planned audit fee, reflecting a reduction in the Audit Commission's central costs.

The Chair noted that Grant Thornton would be the Council's external auditors in 2012/2013.

A Member referred to the statement in the Audit Plan that the external auditors would review the reports of the Council's internal auditors, and said that he could not recall that any such report had ever come before the Committee. The Head of Business, Finance and Pensions agreed this was the case, and said that internal audit reports would only be brought to the Committee if something significant had been found. The Chair asked who would judge what was significant; would it be the external auditors? Mr Hackett replied that the external auditors would have to report on anything that related to the effectiveness of the control framework. The Chair requested asked that he and the Vice-Chair be provided with copies of internal audit recommendations relating to the Avon Pension Fund, and that significant issues be reported to the Committee.

RESOLVED to note the external audit plan for 2011/2012.

75 WORKPLANS

It was agreed that the meeting scheduled for 29 March 2013, which would be the Good Friday bank holiday, should be brought forward to 22 March 2013.

RESOLVED to note the workplans.

The meeting ended at 4.36 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

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