Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 14th December, 2012, 2.00 pm

Bath and North East Somerset Councillors: Paul Fox (Chair), Nicholas Coombes and Charles Gerrish (Vice-Chair)

Co-opted Voting Members: Councillor Mary Blatchford (North Somerset Council), Ann Berresford (Independent Member), Carolan Dobson (Independent Member) and Richard Orton (Trade Unions)

Co-opted Non-voting Members: Steve Paines (Trade Unions) and Paul Shiner (Trade Unions)

Advisors: Tony Earnshaw (Independent Advisor) and Jignesh Sheth (JLT Investment Consulting)

Also in attendance: Tony Bartlett (Head of Business, Finance and Pensions), Liz Woodyard (Investments Manager), Steve McMillan (Pensions Manager) and Alan South (Technical and Development Manager)

36 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

37 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Councillors Gabriel Batt, Mike Drew, Katie Hall, and Mark Wright.

38 DECLARATIONS OF INTEREST

There were none.

39 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

It was noted that this was Bill Marshall's last meeting as a Member of the Committee. The Chair, Members and officers thanked Bill for his contributions to the work of the Committee. Bill said that since he became a member in 2006 he had been impressed by the way in which the Committee had developed and responded to change.

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

There were none.

41 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

42 MINUTES: 21ST SEPTEMBER 2012

The public and confidential minutes of the meeting of the 21st September 2012 were approved as a correct record and signed by the Chair.

43 INTERIM ACTUARIAL VALUATION 2012 - PRESENTATION BY ACTUARY

Mr Middleman made a presentation. A copy of his slides had been circulated with the agenda.

He said the key issue was affordability. Known factors that would impact on the valuation included workforce reductions and the maturity of the Fund. There was considerable uncertainty about the wider outlook for the economy; there was now talk of the UK's credit rating being downgraded, and a failure of the Euro could put massive pressure on the Fund. There was also the impact of the Local Government Pension Scheme (LGPS) reforms. A major pressure came from the current low level of gilt yields, which would be serious if current yields persisted into 2013. In response to a question from the Chair, he agreed that low gilt yields would create pressure for higher contributions. On the other hand he would assume that the pay cap of 1% would remain in place for some time, which would probably lead to the unwinding of about £100m of the deficit. In reply to a question from Councillor Gerrish, he said that it was difficult to predict the effect of quantitative easing in the United States.

He said that the Public Service Pension Bill represented a paradigm shift in public sector pension fund governance. There would probably be a National Pensions Board for the LGPS funds. The proposed reforms of the LGPS benefits structure would not affect the deficit. In response to a question from Richard Orton, he said that the increase in retirement ages would be the major force for savings; an increase in the number of people working beyond 65 would reduce costs because they would have given up their right to take benefits at an earlier age. He said that the Treasury wanted the new LGPS to be structured in exactly the same way as the unfunded schemes. The Unions, however, wanted the difference recognised. He drew attention to the timeline for the valuation given on page 65 of the agenda papers.

RESOLVED to note the information given in the report and the presentation.

44 UPDATE ON LGPS CONSULTATION - VERBAL REPORT

The Technical and Development Manager updated the Committee. He had prepared a note, which had been circulated with the agenda. The note gave the text of the written Ministerial Statement issued in November and set out the main parameters of the forthcoming statutory consultation. The statutory consultation (relating to Workstream 1, which dealt with benefit amendments) was expected to be issued the following Friday. The consultation period for this had been halved from 12 weeks to 6 weeks. This would be followed by a narrative paper on Workstream 2 (governance and cost controls), which would probably be issued next March. The new Regulations were expected to be issued next year.

Councillor Gerrish asked about the potential impact of scheme changes on pensions administration. The Pensions Manager replied that there would be no change to benefits until 2014. The management of changes would be facilitated by the use of the CARE software, which was already being used by the Pensions team. The Head of Business, Finance and Pensions said that in the worst case the implementation of changes would have to be prioritised and other work temporarily put aside.

The Chair said that he had heard that the Councillors' Pension Scheme might be abolished. The Technical and Development Manager replied that this scheme had been revised in 2008 and that any review of it was very much on the back burner.

RESOLVED to note the update.

45 LGPS INVESTMENT LIMITS - INVESTMENTS IN PARTNERSHIPS

The Investments Manager presented the report. She explained that the Department for Communities and Local Government was consulting about whether the limits imposed on investments in partnerships by the LGPS Regulations should be amended to facilitate funds' investments in infrastructure. Investment partnerships were the usual vehicle for investments in infrastructure. A draft response to the consultation was appended to the report.

She said that the Fund had been lobbying with other funds to have the limits replaced by a more flexible risk framework, but thought this was unlikely to be implemented. The current consultation arose from the Government's infrastructure initiative. Regardless of the outcome of the consultation, investments in infrastructure would continue to be made on the same criteria as other investments.

Mr Sheth said that he was uncomfortable with the singling out of infrastructure investment. The same criteria should be used to assess all investments.

RESOLVED to approve the draft response to the DCLG consultation.

46 INVESTMENT PANEL MINUTES AND RECOMMENDATIONS

RESOLVED to note the draft minutes of the Investment Panel.

47 REVIEW OF INVESTMENT PERFORMANCE (SEPTEMBER 2012)

The Investments Manager presented the report and highlighted the key figures. She drew attention to the new section 9 of the report "Review of Internal Control Report". She said that there were no major concerns to bring to the Committee.

Mr Sheth presented the JLT investment report. He said that it had been a positive quarter for equities because of a change in market sentiment. Market sentiment had been boosted by two factors. The first was the statement by the President of the European Central Bank that the Bank would do whatever it takes to save the Euro; this had shown that there was the political will to save the Euro, even though there might be concerns about the long-term stability of the currency. The second had been quantitative easing in the United States to support mortgages. There were signs that markets were becoming less concerned about inflation and more concerned about growth. The IMF had reduced its growth forecasts. JLT expected gilt yields to increase, but it was not clear when and by how much. Gilt yields had increased over the past couple of weeks, but could be knocked back by bad news.

It had been a decent quarter for all the Fund's investment managers. There had been a very good performance by Partners. The Investment Panel had met TT and had been reassured by the changes they had made. Schroders had outperformed over the quarter. It was understood that they selected stocks on a long-term basis, so their performance is subject to short-term volatility. Accordingly, their underperformance over the year since the start of the mandate was not a significant concern. The Investment Panel would be meeting Schroders in February 2013. Discussions had been taking place with Man about the restructuring of their funds. They were continuing to be monitored to see how these changes impacted performance. The Investments Manager added that Man had recognised that they had been over-diversified; the jury was out on whether the restructuring had worked. Councillor Gerrish said that the Investment Panel had been looking closely at Man. Their performance in the last quarter seemed to show improvement; action would be taken if this did not continue.

RESOLVED to note the information set out in the report.

48 PENSION FUND ADMINISTRATION

The Investments Manager summarised the financial report. The forecast was for a net underspend for the year ending 31 March 2013 mainly because of lower fees for investment managers and reduced fees under the new custodial contract. There had been £17,000 additional expenditure on IT, which was approved by the Committee in September 2012.

The Pensions Manager summarised the performance report. Active membership remained fairly stable. The number of joiners had declined, which was not unexpected in view of the on-going freeze in local authority recruitment. Employers had been advised that Employer Self Service had been enhanced to allow online updating of member changes. Online updating would be mandatory from 1 April 2013. The Fund had purchased *i-Connect*, which will allow information on starters and changers to uploaded monthly into the Fund's database from employers' payroll data. The four unitaries had also signed contracts to take *i-Connect*, which would also allow them to monitor their workforce data electronically to assess their staff for auto enrolment purposes. He then turned to the employer performance data, which would no longer be taken in exempt session. There had been major improvements in the performance of Bristol City Council and North Somerset. South Gloucestershire was improving, but Bath and North East Somerset was lagging behind. This had been taken up with the Head of Human Resources at B&NES, who had sent a response to the Chair. The Chair said that this would be copied to any member who requested it. The Pensions Manager said that great progress had been made in removing errors from the Fund's database; all errors should have been removed by the end of the year. A detailed explanation of the apparently poor performance by B&NES and Bristol City Council on deferreds had been included on page 172 of the agenda papers. Their performance figures for deferreds were expected to improve when older "backlog" cases had been cleared. Three employers who had failed to send their year-end returns were listed on page 173 of the agenda. They were Liberata, Mangotsfield Parish Council and Southern Brooks. Their returns had all been received prior to this meeting

RESOLVED to note:

(i) administration and management expenses incurred for 7 months to 31 October 2012;
(ii) performance indicators and customer satisfaction feedback for 3 months to 31 October 2012;
(iii) Summary Performance Report for period 1 April 2011 to 31 October 2012.

49 WORKPLANS

RESOLVED to note the workplans.

The meeting ended at 3.29 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services

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