Bath and North East Somerset Council

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 21st June, 2013, 2.00 pm

Bath and North East Somerset Councillors: Paul Fox (Chair), Charles Gerrish (Vice-Chair), Katie Hall and Lisa Brett

Co-opted Voting Members: Ann Berresford (Independent Member), Councillor Mary Blatchford (North Somerset Council), Councillor Mike Drew (South Gloucestershire Council), William Liew (HFE Employers), Steve Paines (Trade Unions) and Councillor Steve Pearce (Bristol City Council)

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

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

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

1 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

2 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Cllr Gabriel Batt, Shirley Marsh, Richard Orton and Paul Shiner.

3 DECLARATIONS OF INTEREST

There were none.

4 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

6 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

7 MINUTES: 22 MARCH 2013

The public and exempt minutes for the meeting of 22 March 2013 were approved as a correct record and signed by the Chair.

8 ROLES AND RESPONSIBILITIES OF COMMITTEE AND APPROVAL OF GOVERNANCE COMPLIANCE STATEMENT

The Investments Manager presented the report. She reminded Members that the Committee was required to approve the revised Governance Compliance Statement, because the Terms of Reference of the Committee and Investment Panel had been amended. The Committee was also invited to agree the appointment of non-B&NES Members to the Investment Panel for the coming year, (the B&NES Members being subject to political proportionality and appointed by their Group).

Anne Berresford, Cllr Mary Blatchford, and William Liew indicated their willingness to continue to serve on the Panel and were appointed Members for a further year.

It was noted that the vacancy for a B&NES Member on the Panel created by the resignation of Cllr Nicholas Coombes from the Committee would be filled by either Cllr Katie Hall or Cllr Lisa Brett. Confirmation of which of them it would be would be provided by the end of the following week.

Cllr Pearce informed the Committee that Bristol City Council would be initiating talks with pensions officers about the strength of its representation on the Committee in view of the number of its employees in the Fund.

It was agreed that Cllr Drew should continue to represent the Committee on the Local Authority Pension Fund Forum (LAPPF). Cllr Drew pointed out that the Committee was entitled to have more than one representative on LAPPF. The Investments Manager explained that the commitment would be to attend 4 full-day meetings a year in London.

RESOLVED

1. To note the roles and responsibilities of the Members, advisors and officers.

2. To note the Terms of Reference of the Committee and Investment Panel.

3. To approve the Governance Compliance Statement.

4. To appoint Anne Berresford, Cllr Mary Blatchford, and William Liew to the Investment Panel.

9 APPROVAL OF DRAFT ACCOUNTS

The Finance & Systems Manager (Pensions) circulated the final version of the accounts and asked members to note revisions to the draft included with the agenda with respect to note 25 and some key figures. The Fund value was £3147m, not £3145m, net debtors was £12m, not £10m. Total contributions had fallen to £135m, compared with £138m in the previous year. This was explained by a slight fall in the number of members, a reduction in pensionable pay and the loss of higher-paid members. There had been an increase in pensions payable.

A Member asked whether the Fund would have to sell assets to cover current liabilities. The Head of Business, Finance and Pensions confirmed that this was the case, because the Fund was now mature, there were fewer members, a 50/50 option was now available to members, and there were issues with cash flow.

A Member noted that total contributions had gone down but that contributions receivable had gone up and sought reassurance that late payers were being pursued. The Finance & Systems Manager (Pensions) replied that there was always a month's delay in payments, so that the figure for contributions receivable was always higher at the end of the year. Responding to a question from the Chair, the Investments Manager said that the increase of 4.5% a year in employee contributions was not fully reflected in the income figures. The Chair requested an investigation and a report on this.

A Member asked about the figure of £1.6m for transfer-in values referred to in the updated accounts. The Investments Manager explained that this related to the transfer of staff between two colleges; it was an actuarial estimate and likely to be an understatement.

The Finance & Systems Manager (Pensions) explained that accounts had to be signed by the Section 151 Officer by 30 June and would be presented to the Corporate Audit Committee in September. He drew attention to the audit plan from Grant Thornton attached as appendix 2 to the report.

RESOLVED

1. To note the Statement of Accounts for the year to 31 March 2013 for audit.

2. To note the Audit Plan for the year ended 31 March 2013.

10 ANNUAL RESPONSIBLE INVESTING REPORT

The Assistant Investments Manager presented the report. He said that this was the first annual responsible investment report to be made to the Committee. He introduced Paul Hewitt from Manifest, who made a presentation on vote monitoring. A copy of his slides is attached as an appendix to these minutes.

After the presentation, Mr Hewitt answered Members' questions.

Q: Why is the number of resolutions for which results are not available (5,500) so high?
A: In some markets it is not compulsory or not the practice to report results.

Q: Why have State Street, Schroders, Invesco and Genesis been included in a single group on page 13 of the slides, when there are variations in their level of support for management resolutions?
A: They dissent from management resolutions more often than the other fund managers.

Q: Are there any examples of dissent changing anything?
A: Recently there were five directors who were not re-appointed and a chief executive was forced to stand down.

Q: Does anyone maintain black lists of senior executives?
A: I do not know. Manifest's job is to analyse the information that companies provide from a governance perspective.

Q: What proposals have there been to change executive remuneration?
A: Bonus schemes tend to medium-term and longer-term incentives over 5-10 years. The average annual increase in chief executive salaries has been 5% over the last five years.

A Member asked whether it was possible to find out how much resource investment managers devote to voting at company meetings? The Investments Manager replied that officers would follow this up and report. Now that information was being received from LAPPF and Manifest managers were being held to account to a greater extent.

RESOLVED

1. To approve the Annual Responsible Investment Report for 2012/13.

2. To approve the revised Statement of Compliance with FRC Stewardship Code.

11 ADMITTED BODIES AND NEW SCHEDULED BODIES

The Investments Manager presented the report. She said that there would be more monitoring of employers between valuations. However, because of the number of employers now in the Fund, it would be impossible to meet each of them individually, so that they would be monitored in groups; academies would be treated as one group. Section 6 of the report set out the charging regime for academies.

Before discussing the information contained in the exempt appendices, the Committee **RESOLVED** that

> The Committee having been satisfied that the public interest would be better served by not disclosing relevant information, the public shall be excluded from the meeting for the discussion of exempt appendices 1-3, in accordance with the provisions of section 100(A)(4) of the Local Government Act 1972, 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 discussion, it was **RESOLVED**

1. To agree the policy for recovering outstanding liabilities and on-going assessment of employer covenants.

2. To agree to retain the current charging structure for new bodies when joining the scheme.

12 INVESTMENT PANEL ACTIVITY AND MINUTES

RESOLVED

1. To note the draft minutes of the Investment Panel meeting held on 4 June 2013.

2. To note the decisions made by the Panel at the meeting of 4 June 2013.

13 APPROVAL OF STATEMENT OF INVESTMENT PRINCIPLES, REBALANCING AND CASH MANAGEMENT POLICIES

The Investments Manager presented the report and explained that the Statement of Investment Principles was a statutory document which had to be updated whenever there were significant changes to the investment strategy. The revised Statement incorporated the changes agreed at the meeting of 6 March 2013.

Two Members expressed concerns about investment in tobacco and said that they would not be able to support the revised statement because of its incompatibility with the policy on public health agreed by the Council in April. The Investments Manager referred to the discussion that the Committee had had had on investment in tobacco at a previous meeting.

RESOLVED

1. By 7 votes in favour, 1 against and 2 abstentions, to approve the Statement of Investment Principles.

2. Unanimously, to approve the rebalancing policy.

3. Unanimously, to approve the cash management policy.

14 APPROVAL OF COMMITTEE'S ANNUAL REPORT TO COUNCIL

The Investments Manager presented the report. She said that the Chair would take the report to the meeting of B&NES Council in July.

Cllr Pearce and Cllr Blatchford said that they would like to present the report to their own Council meetings.

A Member noted the section about training (agenda page 221) and asked whether training could be provided to Members on the scheme changes to be implemented in

2014. The Pensions Manager replied that because of pressure on staff resources this could not be a high priority.

A Member wondered why the report did not discuss auto-enrolment. The Pensions Manager said that the report was retrospective and there had not been significant activity arising from auto-enrolment during the reporting year.

RESOLVED to approve the 2013 Annual Report to Council.

15 REVIEW OF INVESTMENT PERFORMANCE

The Assistant Investments Manager presented the report. He asked Members to note the change to the content of the JLT report, which now had a greater focus on strategic performance and no longer contained detail on individual investment managers. Reports to the Committee on individual managers would henceforth be on an exceptions basis. He summarised the key figures. There had been a 2% reduction in the funding level, from 71% to 69%, because of inflation. Since March there had been a fall in asset values, because of market concerns about the ending of quantitative easing. However, liabilities had fallen, because of a rise in bond yields.

John Finch commented on the JLT report. He explained that for every fall of 50 basis points in gilts the Fund's liabilities decreased by 10%. The fall in gilts since the end of March had decreased liabilities by 6%, but this had been offset by a 3% fall in the value of the equity portfolio, resulting in a net positive effect on liabilities of 3%. Bond yields had risen and equities fallen, following the announcement by the Chairman of the Federal Reserve had suggested that quantitative easing (QE) had served its purpose and was nearing its end. The current Chairman, Ben Bernanke, was due to retire in March 2014, and the lady tipped to be his successor was reportedly more doveish on QE. However, market volatility would continue, which provided a strong reason to get the Diversified Growth Fund (DGF) up and running.

A Member suggested that there was a danger of "missing the train", if the DGF was not set up promptly. The Investments Manager responded that the DGF would be a separate mandate, so that full procurement procedures had to be followed; the selection panel would meet in October.

[Cllr Katie Hall left the meeting at this point.]

RESOLVED to note the information set out in the report.

16 PENSION FUND ADMINISTRATION

The Finance & Systems Manager (Pensions) presented the financial report. Expenditure with the directly controlled Administration budget was £152,000 below the original budget, mainly because of a delay in appointments to three posts in the investment team. Savings were already being made under the new custodial contract.

The Pensions Manager presented the administration report.

A. Balanced scorecard

The balanced scorecard had been simplified, as Members had requested at the previous meeting. It was now contained on one page, rather than two. It would be reviewed again, with a view to showing workload more clearly.

B. Administration performance

All new work received in the quarter was cleared as well as 8.59% of old work, resulting in a performance of 108.59% in the quarter.

C. Customer satisfaction

Item 3 in Appendix 4A shows a 40% success rate for paying the lump sum within 10 days. Though apparently disappointing, when put in perspective this was in respect of only 5 out of 28 active members. The aggregate performance for paying the lump sum to active members was actually 76%.

D. Joiners and leavers

There was very little change in the number of members.

E. Opt-outs

The opt-out rate had been only 0.2%, which boded well for the LGPS 2014 scheme.

F. Employers' performance

The graph for retirement performance cases within target on agenda page 299, shows improvement for Bristol and South Gloucestershire, but a fall in performance for B&NES and North Somerset. A review meeting had been held with these two unitaries, who had undertaken to improve their performance in the next quarter.

The performance for deferred cases (page 301) was not as bad as it looked when the impact of data cleansing is understood, as explained on page 296.
No employers were late in paying the pension contributions due in the period. Employer performance was even more important this year, because of the triennial actuarial valuation. . Some information had been received from all employers. Over 98% of correct member data was received in time from 2/3 of employers. Employers who had not submitted full or correct information were listed on page 298. The largest of these was Circadian Trust (No 1) with 161 active members. Employers had been warned about penalties under the new Pensions Administration Strategy, and this had obviously been effective in improving performance.

Members' attention was drawn to the information about i-Connect on page 279. Avon Pension Fund was the first local authority pension fund to go live with i-Connect. Staff from the 10 largest employers had been given training in Employer Self-Service. It was hoped that all employers would use electronic data delivery from next year. Those making paper returns would be subject to additional charges.

G. LGPS 2014 scheme implementation project plan

Members were asked to note this.

RESOLVED

1. To note administration and management expenditure incurred for 12 months to 30 April 2013.

2. To note performance indicators and customer satisfaction feedback for 3 months to 30 April 2013.

3. To note the summary performance report for the period from 1 April 2011 to 31 March 2013.

17 LGPS 2014 UPDATE INCLUDING RESPONSES TO DCLG CONSULTATIONS

The Technical Manager presented the report. Responses made in May to various consultations about the Local Government Pension Scheme 2014 were attached to the report.

He said that consultation documents on the new scheme always seemed to arrive too late to be included on Committee agendas. This had happened yet again, with a launch the previous day of a consultation on draft regulations for the new Local Government Pension Scheme with a closing date of 2 August this year. There would be another consultation on transitional regulations and governance guidance. There was currently a consultation on the future of the Councillors' pension scheme with a closing date of 5 July 2013.

When he had contacted the Department of Communities and Local Government (DCLG), they had been unable to give a timescale for the finalisation of the new scheme.

He drew attention to the changes to Fund governance to be introduced by the Public Sector Pensions Act 2013, as summarised in section 5 of the report. A discussion paper issued by the DCLG indicated that the required scheme management board might or might not be the Committee. There would be a national LGPS Scheme Advisory Board, which was being set up in shadow form with an intended first meeting date in June 2013. There would be several sub-committees making recommendations to the Advisory Board. The Avon Pensions Fund had made 2 nominations for the main board.

The Chair informed Members that he had nominated himself to the Shadow Board.

A Member commented that there was also a consultation on merging local authority pension schemes. The Investments Manager said that this seemed to be based on concerns about the "London issue", the existence in London of many small schemes. Many claims were being made about the comparative costs of operating these schemes. In her view the issue was being driven more by politics than anything else. The Fund's officers were prepared for any calls for evidence. The APF schemes included estimates for the costs of maintaining pooled investments in its statements of costs, which made it appear less more expensive than those schemes which did not do this. It was easy to say that costs were too high, but the fact was that the challenges facing schemes were making them adopt more complex investment strategies, and the more complex the strategy, the more it cost to operate. What had to be considered was not simply the costs, but what was being achieved in return.

RESOLVED to note the responses made in May 2013 by Bath and North East Somerset Council in connection with the relevant consultations.

18 WORKPLANS

RESOLVED to note the workplans.

The meeting ended at 4.28 pm

Chair(person) ....

Date Confirmed and Signed ....

Prepared by Democratic Services