

Minutes of the Meeting held

Friday, 25th September, 2015, 2.00 pm

Bath and North East Somerset Councillors: David Veale (Chair), Christopher Pearce (Vice-Chair), Paul Myers and Cherry Beath

Co-opted Voting Members: Councillor Steve Pearce (Bristol City Council), Councillor Mary Blatchford (North Somerset Council), Cllr John Goddard (South Gloucestershire Council), William Liew (HFE Employers), Richard Orton (Trade Unions), Ann Berresford (Independent Member) and Shirley Marsh (Independent Member)

Co-opted Non-voting Members: Cheryl Kirby (Parish and Town Councils) and Wendy Weston (Trade Unions)

Advisors: Steve Turner (Mercer), Tony Earnshaw (Independent Advisor) and Paul Marsland (Manifest)

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), Martin Phillips (Finance & Systems Manager (Pensions)) and Alan South (Technical and Development Manager)

20 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

21 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Cllr Shaun McGall, Cllr Mike Drew and Steve Paines.

22 DECLARATIONS OF INTEREST

There were none.

23 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

Questions were received from Susan Johnson, a Fund member and from Fossil Free Bristol. The questions and answers are set out in the Appendix to these minutes.

Richard Lawrence of Fossil Free Bristol also made the following statement:

We are pleased to see that Bristol Unison now support our campaign, as well as Transition Bath, and we continue to work to bring light to our campaign across the Avon area. And in the global fossil fuel divestment campaign, we can report that so far more than 400 institutions and 2,000 individuals have pledged to divest from fossil fuels. Recent notable commitments include the California Public Employees' Retirement System, the Norway Pension Fund, the Canadian Medical Association, the World Council of Churches, the University of California, Leonardo DiCaprio and the Leonardo DiCaprio Foundation.

25 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

Two questions were submitted by Councillor Lin Patterson. These and the answers to them determined at the meeting are included in the Appendix.

26 MINUTES: 26 JUNE 2015

The public and exempt minutes of the meeting of 26 June 2015 were approved as a correct record and signed by the Chair.

27 AUDITED STATEMENT OF ACCOUNTS, ANNUAL GOVERNANCE REPORT & ANNUAL REPORT - 2014/15

The Finance & Systems Manager (Pensions) presented the report. He invited the Committee to note the final audited Statement of Accounts before their submission to the Corporate Audit Committee. He said that only significant change since the draft accounts were presented to the June meeting of the Committee was a refund of contributions overpaid by Bristol City Council, which reduced the stated net value of the Fund by £4.542m. An overpayment of £2.188m had been known to the Fund at 31 March 2015. The discovery of the first overpayment had led Bristol City Council to review their systems, and a second overpayment of £2.388m had come to light as a result of this review. Because contributions are monitored against pensionable pay, Pensions officers had thought that BCC was overpaying and had alerted them to the issue.

Mr Morris commented on the Annual Governance Report, which was circulated as part of a supplement to the agenda. All controls were rated green, apart from an issue relating to journals (supplement page 54), which was rated as amber. In a reply to a question from a Member, he confirmed that the auditors were satisfied with the separation of the Fund's banking arrangements from those of the Council. Responding to a question from a Member about the auditor's recommendation to separate the Pensions accounts from the Council's within the ledger system, the Head of Business, Finance and Pensions said that an assessment would have to be made of the complexity of extracting and separating the Fund's accounts, adding that there was an ongoing national debate about further separating LGPS Funds from their administering authorities and increasing their independence.

The Letter of Representation from the S151 Officer to the Auditor was circulated and approved at the meeting.

The Finance & Systems Manager (Pensions) invited Members to approve the Annual Report.

RESOLVED

1. To note the final audited Statement of Accounts for 2014/15.
2. To note the issues raised in the Annual Governance Report.
3. To approve the draft Avon Pension Fund Annual Report 2014/15.

28 ANNUAL RESPONSIBLE INVESTMENT REPORT

The Investment Manager presented the report.

Paul Marsland gave a presentation on Manifest's Monitoring Review of Shareholding Voting 2014 (Appendix 2 to the report).

A Member said that he found it difficult to see what concrete benefit had emerged from shareholders raising issues, as companies rarely seemed to modify their policies as a result. Many companies were owned by large institutions, who responded to market events, not issues raised by shareholders. Mr Marsland replied that it was important to consider the whole context in which company investment decisions took place; the voting record was only one aspect.

Another Member suggested that better reporting was needed from investment managers in relation to asset valuations in particular. Company reporting of assets could be very misleading. For example, an oil company might report 40-50 years of extractable reserves, whereas in 20 years' time most cars would be electric. Similar concerns applied to banks' valuation of their property valuations. He would like to see evidence of how our investment managers engaged with companies to interrogate their valuation of their assets. The Investments Manager replied that these issues were pursued through LAPFF, and could be raised in meetings the Investment Panel have with managers. The Member responded that it was important that the Fund's stakeholders knew that the Fund was engaging with these issues.

RESOLVED to approve the Responsible Investment Report for 2014/15.

29 LGPS UPDATE - POOLING OF INVESTMENTS

The Head of Business, Finance and Pensions presented the report. He said that the Government had returned to this theme in the July budget statement. He believed that the LGPS schemes in the South West had a good record of co-operation, but it was now inevitable that LGPS funds would be required to have some form of pooled investment arrangements. Funds were expected to produce their own proposals this autumn, with formal agreement of the proposals in January/February 2016. Members were invited to approve in principle the setting up of a South West Collective

Investment Vehicle and to authorise officers to continue work with neighbouring funds to develop proposals for such a vehicle.

A Member asked whether Funds would be required to merge. The Head of Business, Finance and Pensions replied that there was nothing specific from Government about this at the moment. The Member said that he would be concerned about the ability of very large funds to move the market. A Member was concerned that these proposals had progressed so far without any consultation with the funds. He believed that governance structure should be looked at first. The Head of Business, Finance and Pensions agreed that governance was critical. The Investment Manager said that the Government would consult on the regulations, but would not consult on the principle of collective investment. They were simply going to instruct funds to do it.

After discussion Members felt it was premature to approve a collective investment vehicle in principle and requested that this recommendation be withdrawn.

RESOLVED to authorise the S151 Officer to continue work with neighbouring funds in the South West to explore proposals for a South West Collective Investment Vehicle or alternative.

30 REVIEW OF RESPONSIBLE INVESTING POLICY - SCOPE

The Investment Manager presented the report.

A Member suggested that the scope should be amended to indicate that representations made to the Committee from the public, of the kind received today, would be taken into consideration. He also asked whether £25,000 was sufficient for a review of this kind. The Investment Manager said that the fee was that indicated by Mercer. A Member suggested that paragraph 5.2 of the report was broad enough to include representations from the public without a specific reference to them. It was agreed that the scope was broad enough and did not to require a specific reference to them.

RESOLVED

1. To agree the scope for the Review of the Responsible Investing Policy as set out in section 5.1-5.3.
2. To agree the fund the costs of the review to an initial limit of £25,000.

31 THE PENSIONS REGULATOR - ADMINISTRATION - COMPLIANCE REPORTING

The Pensions Manager presented the report.

A Member suggested that a minimum limit should be placed on historic frozen refunds. She also wondered whether late contributions needed to be broken down by individual employer.

RESOLVED:

1. To note the report.
2. To agree Appendix C – Data Improvement Plan.
3. To agree Appendix D – Late Payers Report.
4. To agree to receive a quarterly monitoring report going forward combining the overall administration performance report.

32 REPORT ON INVESTMENT PANEL ACTIVITY

The Assistant Investments Manager presented the report.

Members noted that the Panel had requested further information from the consultant about managing liabilities and had recommended that the Fund should continue to strategically hedge its exposure to currency risk.

RESOLVED

1. To note the recommendations and decisions made by the Panel since the last quarterly activity report, as set out in 4.1.
2. To agree the recommendations on currency hedging at 4.1.2(a) and points 1), 2) and 3) in Exempt Appendix 3.

33 REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER ENDING 30 JUNE 2015

The Assistant Investments Manager presented the report. The funding level had fallen from 78% to c. 77% and the deficit had risen slightly from c. £1.07bn to c. £1.1bn, largely because of disappointing asset returns during the quarter. Falling gilt yields had increased the value of the liabilities over the 12 month period.

Mr Turner commented on the Mercer Investment Performance Report. He agreed with the suggestion made by a Member that the Bank of England would not raise the base rate until the Federal Reserve had done so, and that an increase in interest rates was largely priced into the market and the allocation to emerging markets should remain unchanged.

RESOLVED:

1. To note the information set out in the report.
2. To note LAPFF Quarterly Engagement Report at Appendix 4.

34 PENSION FUND ADMINISTRATION

The Finance & Systems Manager (Pensions) summarised the budget information as set out in section 4 and 5 of the report.

A Member asked about contribution rates. The Investment Manager replied that these were set at the triennial valuation. The rates reflected administration costs, not investment costs.

The Pensions Manager presented the performance report.

RESOLVED:

1. To note the administration and management expenditure incurred for 4 months to 31 July 2015.
2. To note the performance indicators and customer satisfaction feedback for 3 months to 30 June 2015.
3. To note the Summary Performance Report for period from 1 July 2011 to 30 June 2015.
4. To agree to review the full risk register once a year.
5. To agree to review the top 10 risks and changes quarterly.

35 CONSULTATION RESPONSES

The Technical Manager summarised the report.

Members discussed the proposed Exit Cap (paragraphs 5.1-5.5 and Appendix 2). One Member suggested that the proper approach would have been to change the rules of the LGPS rather than imposing this cap, while at the same time effectively allowing employers the final say on the benefits to be paid. As far as he understood, the Fund had never incurred costs because of employers' decisions about the redundancy of senior staff. The Head of Business, Finance and Pensions responded that Government was reacting to a perception that a large number of staff in the public sector were receiving extremely generous severance payments, and that this did not really fit in with the public sector ethos. The issue was how employers managed the exit of senior people, as the Fund did not incur additional costs.

RESOLVED:

1. To note the current update and the response made by Bath and North East Somerset Council in connection with the Exit Payment Cap consultation.
2. To approve the response letter regarding the pension tax relief consultation.

36 WORKPLANS

The Investment Manager presented the report.

RESOLVED to note the workplans and training programme for the relevant periods.

**37 TIMING OF FUTURE COMMITTEE MEETINGS AND TRAINING SESSIONS -
VERBAL REPORT**

The Head of Business, Finance and Pensions introduced this item. He said that a request had been received from a Member who found it difficult to attend meetings on a Friday afternoon that the Committee should consider holding changing its current meeting schedule.

The majority of Members felt that on balance they were content with the present meeting schedule and did not think that it should be altered.

It was agreed that the Committee Administrator should send the meeting schedule to Democratic Services in Bristol City Council, North Somerset and South Gloucestershire and issue invitations to Members for each meeting via the Outlook calendar.

The meeting ended at 4.01 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services