

AVON PENSION FUND COMMITTEE

Minutes of the Meeting held

Friday, 23rd September, 2011, 2.00 pm

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

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

Co-opted Non-voting Members: Councillor 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: Tony Bartlett (Head of Business, Finance and Pensions), Liz Feinstein (Investments Manager), Matthew Betts (Assistant Investments Manager), Steve McMillan (Pensions Manager), Martin Phillips (Finance & Systems Manager (Pensions)) and Alan South (Technical and Development Manager)

20 ELECTION OF VICE-CHAIR

Cllr Fox (Chair) having been being delayed by a disruption on the rail service between Bath and Keynsham and Cllr Gerrish (Vice-Chair) having presented his apologies, Cllr Batt was elected temporary Vice-Chair to chair the meeting until the arrival of Cllr Fox.

21 EMERGENCY EVACUATION PROCEDURE

The Democratic Services Officer read out the procedure.

22 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Cllr Charles Gerrish, Paul Shiner, Bill Marshall (substituted by Andy Riggs) and Cllr Mark Wright.

23 DECLARATIONS OF INTEREST

Councillor Blatchford declared a personal and prejudicial interest in respect of item 14 by reason of her connection with a relevant admitted body.

24 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

There was none.

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

There were none.

26 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

27 MINUTES: 24 JUNE 2011

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

28 FINAL ACCOUNTS 2010/11, GOVERNANCE REPORT AND AUDIT PLAN 2011/12

The Finance & Systems Manager (Pensions) presented the report. He reminded that the draft accounts had come before them at the June meeting. The audited accounts were now laid before them before going for approval to the Corporate Audit Committee on 29 September 2011.

Mr Hackett said that the accounts for the Avon Pension Fund formed part of the accounts for Bath & North East Somerset Council, which, after a couple of representations had been dealt with, would be signed off on 30 September 2011. He said that information had been given to the auditors on time and had been accompanied by good working papers. On the whole the accounts complied with new financial reporting standards. The Annual Governance Report had been prepared in a new format, which he hoped would be more user-friendly.

A Member said that the accounts had received a remarkably clean audit report, for which the finance team deserved congratulations.

RESOLVED

1. To approve the final audited Statement of Accounts for 2010/11.

To note the issues raised in the Annual Governance Report. The Finance & Systems Manager (Pensions) presented the report. He reminded that the draft accounts had come before them at the June meeting. The audited accounts were now laid before them before going for approval to the Corporate Audit Committee on 29 September 2011.

Mr Hackett said that the accounts for the Avon Pension Fund formed part of the accounts for Bath & North East Somerset Council, which, after a couple of representations had been dealt with, would be signed off on 30 September 2011. He said that information had been given to the auditors on time and had been

accompanied by good working papers. On the whole the accounts complied with new financial reporting standards. The Annual Governance Report had been prepared in a new format, which he hoped would be more user-friendly.

A Member said that the accounts had received a remarkably clean audit report, for which the finance team deserved congratulations.

RESOLVED

1. To approve the final audited Statement of Accounts for 2010/11.
2. To note the issues raised in the Annual Governance Report.

29 AVON PENSION FUND ANNUAL REPORT 2010/11

The Investments Manager presented the report. She said that the Annual Report had been reviewed by the Auditor as part of the Fund's audit in accordance with audit guidelines.

RESOLVED

1. To approve the draft Avon Pension Annual Report 2010/11.
2. To note the arrangements for distribution of the Avon Pension Fund Report 2010/11.

30 APPLICATION BY THE PARK FOR COMMUNITY ADMISSION BODY STATUS

The Investments Manager presented the report. She reminded Members that the admission of any community admission bodies to the Fund had to be approved by the Committee. She invited Members to approve the admission of The Park Community Centre, subject to an appropriate decision, including the commitment to a satisfactory guarantee (as detailed in paragraph 4.5 and Appendix 2 of the report), being taken by the Cabinet of Bristol City Council at its meeting on 29 September 2011.

RESOLVED that The Park is allowed entry into the Avon Pension Fund as a Community Admission Body with Bristol City Council acting as guarantor, subject to the condition set out in paragraph 4.5 of the report.

31 APPLICATION BY SOUTH WEST ACADEMIES FOR COMMUNITY ADMISSION BODY STATUS

The Investments Manager presented the report. She explained that South West Academies Limited had been established by four academies to provide them with financial and other support services.

A Member asked about the financial strength of the guarantors and expressed concern that the Fund would be accepting an open-ended commitment to a body that might have only a few employees now, but could expand in the future. The Investments Manager responded that the issue of the guarantee of academy liabilities had been raised with the Department for Education, who are the funders of academies and, it would be the only body that could meet any outstanding liabilities. Officers were unable to advise on the financial strength of the front-line guarantors given they are reliant on central funding, but as scheduled bodies, academies had a right of admission to the Fund and could act as guarantors for other admitted bodies. Previously an academy which failed has been merged with another academy. A Member said that the Department for Education was at best providing an implicit guarantee. The Investments Manager said that officers would continue to press the Department for Education to clarify the situation.

RESOLVED that South West Academies Limited is allowed entry into the Avon Pension Fund as a Community Admissions Body subject to City Academy and Colston Girls' School acting as "joint and several" guarantors.

32 LGPS CHANGES/HUTTON REVIEW - VERBAL UPDATE

The Technical and Development Manager gave an oral update. He said that following the Comprehensive Spending Review the Government had decided that employee contributions should increase by up to 2.3%. However, in July the Government had indicated that it would be prepared to treat the Local Pension Scheme differently from other public sector schemes and invited the Local Government Association (LGA) to make proposals. Talks had been held between representatives of employees and the employers, but no agreement had been reached, so the Department of Communities and Local Government had made its own proposals. The LGA had suggested that the pensionable age should be 65-66 by 2014 and that higher employee contributions should commence in two years' time, with the option of lower benefits in return for lower contributions. There would be a short consultation on draft regulations at the beginning of next year, with a view to implementation by April 2012. There would be a three-month consultation of the headline proposals from the Hutton Review commencing by the end of October. Any proposed changes to legislation would be discussed by ministers in 2012-2013, with a view to implementation by April 2015.

RESOLVED to note the update.

33 ADMINISTRATION STRATEGY - STEWARDSHIP REPORT

Cllr Fox arrived and took the Chair.

The Pensions Manager presented the report. He said that there was a particular emphasis in the Strategy on the training of the relevant staff of the employers and on electronic service delivery. There would eventually be a self-service facility for the employers, allowing them to update records online. A few large employers had had digital facilities for processing employee data for some time. Meetings would be held with three other large employers in the near future to discuss the way forward. A software supplier was working on the construction of a hub, which would allow

employers to submit bulk data from their payroll systems without having to do a great deal of re-formatting; this might be functional by the middle of next year. Smaller employers with less than 50 employees could use an online interactive updating service; good progress was being made with this.

The Head of Business, Finance and Pensions said that one aim of the strategy was to improve the administrative efficiency of employers; there were provisions allowing the recovery of any disproportionate administration costs imposed by an employer.

A Member asked that the online interactive services should save data automatically, so that if the connection was interrupted for any reason data already input by the user would not be lost.

A Member said that she hoped that employers would use the electronic updating services, as the availability of current information would reduce problems for employees.

RESOLVED to note the current position on the actions detailed in paragraph 1.1 of the report and the proposals reported by Officers to progress these.

34 ADMITTED BODIES - VERBAL UPDATE

Cllr Blatchford withdrew from the room in accordance with her declaration of interest.

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

RESOLVED to note the update.

35 INVESTMENT PANEL MINUTES

Cllr Blatchford returned to the room, and the Committee returned to open session.

Cllr Batt pointed out that although he had presented his apologies for this meeting, they were not recorded in the minutes.

RESOLVED to note the draft minutes of the Investment Panel meeting held on 7 September 2011.

36 REVIEW OF INVESTMENT PERFORMANCE FOR QUARTER ENDING 30 JUNE 2011

The Assistant Investments Manager presented the report. He highlighted three matters:

- paragraph 4.13: State Street had been invited to attend the next meeting of the Investment Panel to discuss the decrease in the overall size of the State Street pooled funds in which the Fund is invested
- paragraph 4.14: because the reporting of Partners performance data would be lagged by a quarter, the Investment Panel had recommended that Officers verbally update the Panel and the Committee verbally on the latest performance of Partners
- paragraph 6.4: since the end of the reporting quarter volatility in equity and bond markets had had a negative impact on the Fund

Mr Finch drew attention to the information in paragraph 6.4 that the 0.5% decline in long-dated gilt yields since June could increase the liabilities of the Fund by 7-10%. In the three months to the end of June the performance of the Fund had lagged the Local Authority average because of its higher exposure in bonds. Hedge funds had slightly underperformed, but were likely to have helped overall performance during the period since quarter end. The drivers of performance in the period were outside the control of the Committee and the portfolio managers. A Member asked about the prospects for bond rates and their impact on the Fund. Mr Finch said that bond rates were at an historic low and in his view were likely to remain low. The actuary uses bond rates in the valuation so the low level of rates will increase the value of liabilities. The Fund had to fund liabilities for a period of 60-80 years, and, as he had mentioned, the decline in long-dated gilts since June could already have had a significant impact on the liabilities of the Fund. On the other hand, it was now thought that basing pension increases on CPI rather than RPI could reduce liabilities by as much as 1.5% rather than the initially projected 0.5%. In addition, there was a breathing space for the Fund, since contribution rates did not have to be reset until April 2013, by which time European debt problems should have been clarified.

A Member said that State Street should have notified the Fund about the large redemptions from their pooled fund. An enhanced indexation fund needed to be of a scale to offset the transaction costs. The Assistant Investments Manager agreed that they should have notified the Fund and their failure to do so would be taken up with them. Mr Finch added that State Street's broader investment base provided some comfort, but it was necessary to get a better understanding of what they were doing, which was why they had been invited to the next meeting of the Investment Panel.

A Member asked about rebalancing bonds against equities. The Investments Manager said that the situation was being carefully monitored; at present the ratio was just under the tolerance level. In such volatile markets it was not sensible to rebalance too soon as this would increase transaction cost. It was likely that rebalancing would take place in due course.

The Chair asked how the impact on the Fund of the changes in financial assumptions detailed in section 6 of the report would be communicated to employers. The Investments Manager replied that the finance managers of the employers would be invited to an investment forum.

RESOLVED to note the information as set out in the report.

37 PENSION FUND ADMINISTRATION - BUDGET MONITORING FOR YEAR TO 31 AUGUST 2011 AND PERFORMANCE INDICATORS FOR QUARTER ENDING 31 JULY 2011

The Finance & Systems Manager (Pensions) presented the finance report. He said that since the circulation of the report an error had been discovered. The budget figure for compliance costs recharged should have been (£120,000) instead of (£52,000). The overspend was therefore reduced from £246,260 to £178,260.

The Pensions Manager presented the Performance Indicators. He apologised that no figures were available on performance against target for this period as the tool used to extract this information needed some work following the move from AXIS to Altair software so replacements for two pages in the appendix had been circulated to Members after the agenda had been issued. Work outstanding was well within the 10% target. Information about members opting out of the Fund, requested by the Committee at its previous meeting, had been included in appendices 5, 6 and 7 of the report. Appendix 7 showed that 80% of the staff of large employers were members of the Fund, which is a higher proportion than a few years ago.

A Member requested a comment on the trend line of graph 7 on page 281 of the agenda, which showed an increase in outstanding workload. The Pensions Manager conceded that the graph did show marginal increase, but emphasised that even though workload varied considerably from month to month, outstanding work remained within the 10% target. The Member asked whether he was confident that it would remain within the target, given that there were still vacancies for administration staff. The Pensions Manager said there were several issues affecting recruitment and retention. A small amount of overtime working had been necessary. The aim was to return to full complement.

The Pensions Manager reported that the issue of Annual Benefit Statements to Fund members would begin in October. In response to a question from the Chair he said that figures for eligible staff who were members of the Fund contained in appendix 7 would be the benchmark for future reports. The Pensions Team had put information on the Fund's website to warn members against making rash decisions to leave the Fund before the government announced its specific proposals for change.

RESOLVED to note the administration and management expenses incurred for the year to 31 August 2011 and Performance Indicators for the 3 months to 31 July 2011.

38 WORKPLANS

The Investments Manager presented the report. She drew attention to the updating of the workplan for the Investment Panel and to the item on the interim actuarial valuation on the Committee agenda for 9 December, with a training workshop on the valuation to be held in the morning before the meeting. The review of SRI policy had been split into two stages, with the stage 1 workshop now planned for December.

The Pensions Manager asked Members to note that the next Annual Employers Conference would take place at Novotel in Bristol on 8 February 2012.

RESOLVED to note the workplans for the period to 31 March 2012.

The meeting ended at 3.19 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services