worcestershire
countycouncil

Pensions Committee
Wednesday, 10 June 2015, County Hall, Worcester - 10.00 am

Minutes

Present:

Mr R W Banks (Chairman), Mr R C Lunn (Vice Chairman), Mr D W Prodger MBE, Mr R J Sutton and Mr P A Tuthill.

Coopted Members (voting) - Mr V Allison (Employer representative), Mr A Becker (Employee representative) and Mr R J Phillips (Herefordshire Council)

Available papers

The Members had before them the Agenda papers (previously circulated). A copy will be attached to the signed Minutes.

1 Named Substitutes (Agenda item 1)

None.

2 Apologies/ Declarations of Interest (Agenda item 2)

None.

3 Public Participation (Agenda item 3)

None.

4 Pension Fund Governance Arrangements (Agenda item 4)

The Committee considered the Pension Fund governance arrangements.

The report set out the background to the Pension Fund governance arrangements, the Council approved Pension Fund governance arrangements, the Pension Fund Policy Statement and Terms of Reference, the Pension Fund Scheme of Delegation, details of the arrangements for the appointment of the Chairman of the Pension Investment Advisory Committee.

In introducing the report, the Chief Financial Officer and the Human Resources - Service Centre Manager highlighted the following key points in the extended Scheme of Delegation to the Chief Financial Officer (CFO):

Investment and Reporting

- No. 18 – This delegation would allow the CFO to rebalance the fund's assets so that it stayed in line with investment policy when the occasion demanded without unnecessary delay
- Nos. 19 – 21 – These delegations allowed the CFO to make decisions on transactional activities following consultation with the Chairman and Vice-Chairman without the need to bring a report back to this Committee and thereby speeding up the decision-making process. In particular with the transfer of assets and cash, it would ensure that money was at the right place at the right time
- No. 25 – This allowed the CFO to negotiate and agree fee discounts without delay and reduce the potential for lost opportunities to make savings
- Nos. 27 and 28 – These delegations allowed the CFO to carry out the day-to-day Pension Fund business in a timely fashion

Administration

- No. 29 - This delegation allowed the CFO in consultation with the Head of Legal and Democratic Services to implement the admission arrangements as quickly as possible
- No. 49 – Where disagreements arose, members of the Fund had the right of appeal. It was important that the CFO had the ability to respond to these issues as quickly as possible
- Nos. 51 and 52 – This delegation allowed the CFO to manage assets and accept transfer values in a timely manner.

In the ensuing debate, the following principal points were raised:

- Did the delegation of the transfer and allocation of assets have an impact on the Joint Property Vehicle? The CFO advised that this delegation related to the investments of the Pension Fund whereas the Place Partnership's responsibility related to the Council's property portfolio investments
- Who was responsible for presiding over disagreements raised under the Internal Dispute Resolution Procedure in respect of administering authority matters? The Human Resources - Service Centre Manager advised that a complaint considered at Stage 1 of the complaints procedure would be presided over by the Pension Fund Manager or herself and should the complaint proceed to Stage 2 the presiding officer would be vice-versa

- In response to a query about the role of the Pension Investment Advisory Committee, the CFO commented that the emphasis of the new Pension Scheme arrangements was that decisions were vested in this Committee whereas previously under the shadow pension arrangements, responsibility was vested in the CFO. The role of the Advisory Committee had not been diminished but representations were made to the Committee rather than to the CFO. There were a number of day-to-day decisions that were delegated to the CFO. These changes had been implemented to reflect best practise
- In response to a query, the Human Resources - Service Centre Manager stated that there had been an increase in the uptake of requests from members for information but there had not been a significant number of members asking for estimates. The uptake of transfer of values would be continually monitored. The regulations provided that if you wished to transfer your pension funds to another Pension scheme, you could do so within 12 months of the date of employment. Any request outside the 12 month period would need to be agreed by the employer
- The role of the Pension Board was effectively to act as a type of scrutiny committee. It was important that the agenda of the Pension Board mirrored that of this Committee. The Board would want to monitor the performance and Value for Money arrangements of the Pension Fund. There was a danger that the Board duplicated the work of the Committee but hopefully this would be avoided
- The CFO advised that he was confident that an individual appointed to the role of Independent Chairman of the Pension Board would have the appropriate knowledge and skills for the role. The role of the Independent Chairman of the Board would be to liaise with the Chairman and Vice-Chairman of this Committee to ensure value was added to the process and to avoid duplication.

RESOLVED that:

a) the updated Pension Fund Governance Policy Statement be noted;

b) the Pension Committee Terms of Reference be noted;

c) the Pension Board Terms of Reference be noted;

d) **the extended Pension Fund Scheme of Delegation be endorsed; and**

e) **the arrangements for appointing the Chairman of Pension Investment Advisory Panel be noted.**

5 Knowledge and Skills Self-Assessment (Agenda item 5)

The report set out details of the Knowledge and Skills Training Policy, the Knowledge and Skills Self-Assessment Questionnaire, and the next steps for the completion of the Questionnaire.

In response to a query, the Principal Accountant – Pension Fund, Investments and Reporting advised that the Questionnaire had been updated to reflect changes in the CIPFA standard guidance.

RESOLVED that:

a) **the Knowledge and Skills Self-Assessment Questionnaire set out as Appendix 1 to the report be noted;**

b) **the Questionnaire in line with the 'Next Steps' timeline be completed by Members of the Committee; and**

c) **the updated Knowledge and Skills Policy Statement be endorsed.**

6 Pension Fund Accounts Executive Summary (Agenda item 6)

The Committee considered the Pension Fund Accounts Executive Summary.

The Chief Financial Officer introduced the report and made the following points:

- The full set of Accounts would be considered by the Audit and Governance Committee at its meeting on 26 June 2015
- The value of the Pension Fund's net assets had increased by approximately £200m to a total of £1.98bn which exceeded the actuarial prediction. Contributors to the Fund had increased partly as a result auto-enrolment combined with an uplift following the 2013 Actuarial investment. Net investment earnings had decreased by 3.1% whilst ongoing expenditure had increased by 2.9%
- Contributions from staff and employers plus interest and dividends received exceeded benefits paid in 2014/15 by £47.6m

- Investment managers were paid on the basis of the value of assets under management. As a result of fee discounts negotiations, a reduction of £1m per annum in fees had been agreed with investment firms
- There had been a significant withdrawal of £52.3m from the Fund with the transfer out of the Probation Service to Greater Manchester Pension Fund
- A significant risk to the Fund was how liabilities were valued. Liabilities were measured against the gilt rate. There had been a sustained period of very low gilt rates but this was likely to change and which could have a big impact on the Fund's liabilities. The key factor was understanding how liabilities worked and influencing them.

In the ensuing debate, the following principal points were raised:

- What discretion did the Actuary have over the discount rates? The Chief Financial Officer advised that different actuarial firms had different ways of calculating discount rates. Actuaries made a number of assumptions in their calculations eg. longevity. They had started with the view that a rate of 1.25% was appropriate. However the advised rate was considered very prudent when benchmarked against other Funds' assumptions and following negotiations the rate moved to 1.5% which had a considerable impact on liabilities
- It was expected that an operating surplus would exist for the foreseeable future and yet concern was being expressed about the potential Pension Fund liabilities. There needed to be a correlation drawn out in the report between the performance of the Fund and what it meant in terms of paying off the deficit. The Chief Financial Officer offered to provide a presentation to members of the Committee which would explain the process and provide members with an assurance that there were no major concerns
- The fee discount of £1m was significant and good news for the Fund. Officers should be congratulated for their efforts and encouraged to negotiate further discounts in the future
- Was there a "tipping point" for the Pension Fund in terms of the deficit for the scheme? The Chief Financial Officer advised that auto-enrolment had had a significant impact on stabilising scheme membership and therefore contributions. If the position was reached where dividend income was being used to pay benefits then this would be a major cause for concern

- It was clear that a lot of work was being undertaken to manage the deficit. The problem was being exacerbated by the reduction in the number of local authority employees and therefore the deficit impacted upon the remaining staff who contributed to the scheme.

RESOLVED that the Pension Fund Accounts Executive Summary (pre-audit) be noted.

7 Pension Investment Update (Agenda item 7)

The Committee received an update on Pension Investments.

The report set out the relative performance and returns achieved by the fund's investment managers including: JP Morgan – Emerging Markets Equities, Capital International, and Nomura.

The Chief Financial Officer introduced the report and made the following points:

- Nomura had been constantly underperforming however there had been a change of portfolio manager at the firm and they were now performing above the benchmark
- Capital International had under-performed for some time however they had outperformed the index benchmark by 3.1% in the quarter ended 31 March 2015 and this improved performance had continued through April and May
- The market performance of JP Morgan was being reviewed with a view to a potential fee reduction. A long term judgement needed to be made in relation to emerging markets because at present these were the worst performing across the world. The key was whether there was an upturn in the market and whether JP Morgan were able to take advantage of that because there was a concern that there style of working did not suit the market. There were a number of changes being made to the processes and the team at the firm. The Committee would be kept informed of progress
- The North American market had performed particularly well this year whereas as other markets had fluctuated
- The key points were that that the trend in investments was improving; fees had been cut; and the investment performance of JP Morgan needed to be monitored.

In the ensuing debate, the following principal points were made:

- The report highlighted the performance of Nomura as an area that required a period of sustained outperformance before the manager was taken off 'watch' yet it would appear from the figures in the Independent Investment Adviser's report, that Nomura's performance was better than that of UBS. Why were the two firms treated differently? The Chief Financial Officer advised that UBS managed an account of £1.1 bn on a passive basis in developed markets that were very difficult to outperform. By contrast Nomura managed a smaller amount of money in a market where there was an expectation that active managers could outperform the index. In addition, due to the nature of its market and the additional resources required to carry out active management, Nomura were paid considerably more than UBS for their service and therefore focus was concentrated on their returns. There was a danger of chasing winners and catching losers therefore the temptation to constantly switch investments was resisted. Diversification in markets across the world was considered the best approach
- Who was responsible for making decisions about investment strategies? The Chief Financial Officer advised that he had delegated authority to invest funds and move funds around within the Strategic Asset Allocations Policy
- From analysing the fluctuation in market performance over a number of years, it was clear that it was important to get the right approach to investment allocation.

RESOLVED that:

a) the Independent Financial Adviser's fund performance summary and market background be noted; and

b) the update on the Investment Managers placed 'on watch' by the Pension Investment Advisory Panel be noted.

8 Pension Administration Update (Agenda item 8)

The Committee received an update on Pension Administration.

The report set out details of the Shadow Pension Administration Advisory Forum meeting on 5 May 2015, Career Averaged Re-valued Earnings (CARE), end of year arrangements, freedom and choice, outsourcing – requests for estimates, GMP reconciliation, and tri-annual valuation.

The Human Resources - Service Centre Manager introduced the report and commented that she was looking to arrange a workshop with employers to help with the changes to the end of year arrangements to reflect the switch from final salary to CARE.

In the ensuing debate, the following principal points were raised:

- It was important to engage employers so that any concerns about the pensions administration arrangements could be addressed
- Affordability of the pension scheme was an issue, particularly for academies. There was a lack of understanding of the parameters of the scheme. A report should be brought to the next meeting of the Pension Administration Advisory Forum to discuss the implications of the administration arrangements to academies. The Human Resources - Service Centre Manager commented that previously schools did not need to know about the scheme therefore with the change to academy status, there was a lack of knowledge amongst schools about the scheme and she welcomed an opportunity to discuss it at the Forum meeting
- Technically it was possible for academies to go bust. As a result, some actuaries were advising that the costs associated with their pension fund arrangements should increase because of the size and nature of the risk. The Chief Financial Officer advised that conversations were being held between the actuary and academies about affordability and compromises were being put in place. However, there was a lack of certainty about how long academies would exist which contrasted with the Investment Strategy which operated on the premise that everything would exist forever
- Were new staff members at academies permitted to join the pension scheme? The Human Resources Service Centre Manager advised that the new regulations relating to academies provided a statutory right for new employees at academies to the join the pension scheme.

RESOLVED that:

a) **the Pension Administration Advisory Forum Update be noted; and**

b) **the general update from the Administering Authority be noted.**

9 Administering Authority Structure (Agenda item 9)

The Committee received an update on the administering authority structure.

The report set out the existing role and size of the administering authority, the case for change and planning for the future.

In the ensuing debate, the following principal points were raised:

- There was a push to provide greater collaboration between funds to make them more efficient. An analysis of the benefits and dis-benefits of such a move would need to be undertaken before action was taken. The Human Resources - Service Centre Manager advised that there were examples of collaboration between Pension schemes. Further research would be required to find examples of best practice and understand the implications for this Council's Pension scheme before a report was brought to this Committee
- Was it possible to merge Pension Funds? The Chief Financial Officer advised that the implications of such a change were significant and would need a change in legislation.

RESOLVED that:

a) **the research project on the future provision of the Administering Authority be endorsed and a report be brought back with an options appraisal;**

b) **the impact of changes on the Administering Authority be noted; and**

c) **the Project Support capacity to work on key project areas be endorsed.**

The meeting ended at 11.45am.

Chairman …………………………………………….