worcestershire county council

# Pensions Committee
# Wednesday, 30 September 2015, County Hall, Worcester - 10.00 am

**Minutes**

**Present:**

Mr R W Banks (Chairman) and Mr R C Lunn (Vice Chairman)

Co-opted Members (voting) – Mr A Becker (Employer representative) and Mr R J Phillips (Herefordshire Council)

**Available Papers**

The Members had before them:

A. The Agenda papers (previously circulated); and

B. The Minutes of the meeting held on 10 June 2015 (previously circulated).

A copy of document A will be attached to the signed Minutes.

**10 Named Substitutes (Agenda item 1)**

None.

**11 Apologies/ Declarations of Interest (Agenda item 2)**

Apologies were received from Mr V Allison, Mr R J Sutton and Mr P A Tuthill.

**12 Public Participation (Agenda item 3)**

None.

**13 Confirmation of Minutes (Agenda item 4)**

**RESOLVED that the Minutes of the meeting held on 10 June 2015 be confirmed as a correct record and signed by the Chairman.**

**14 Pension Investment update (Agenda item 5)**

The Committee received a Pension investment update.

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

- The performance of the fund managers needed to be put into the context of the worldwide performance of equity markets which had seen the worst performance since 2011

- The Council was increasingly looking to invest in infrastructure and alternative assets including investment in UK ports, wind farms and solar energy. These investments performed in excess of the planned rate of return. However the reduction in the price of power had had an impact on the performance of these markets
- Nomura had outperformed the index benchmark by +2.8% in the quarter which was ahead of their targeted outperformance. However there were issues around their passive investment in Australia. It was considered that the company could be doing better and should remain 'on watch'.
- Capital International had had a good quarter outperforming the index benchmark and their performance targets. However despite this performance, there remained concerns about the companies processes and a sustained period of good performance was required to give the Council reassurance
- JP Morgan had continued to struggle with an underperformance against their benchmark for the quarter. The Company had provided more convincing arguments to explain their methodology however their performance was still not improving. It was a challenging period for emerging markets which tended to be more volatile in nature.

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

- Had the representatives of JP Morgan expressed any views about the performance of the Russian market? The Chief Financial Officer advised that JP Morgan had taken a firmer viewpoint about supporting investment in Russia as a good long term investment. The Russian market had performed well in the last quarter and regained some lost ground. It was reassuring that the company had put forward a more convincing argument than previously for their approach to investment
- The Independent Adviser's report indicated that the emerging markets were relatively inexpensive investment opportunities. The Chief Financial Officer responded that when

price against earnings was examined they did look inexpensive. However, he was cautious about the opportunities they presented because he queried whether this would be the new 'normal'. There were a number of micro-economic factors that would affect these markets in the future. He argued that it was appropriate for funds to be invested worldwide rather than focussed specifically to one particular area

- UBS appeared to have outperformed the market. Did this give weight to the argument for greater investment in passive management funds? In response it was commented that it might be that the passive management target for UBS was lower than for other more active markets. The Chief Financial Officer stated that the Council was relatively comfortable with smaller increases in performance against the Passive Index. Active fund managers were constantly pressed to outperform the market in accordance with their performance target. Schroders were the company that performed the most consistently. The Council was particularly satisfied with their practices which included monthly performance reports and extra
- It was requested that the Pension Fund Performance Chart be updated for future reports to show whether or not each investment company manager was exceeding their performance target.

**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 Committee be noted.**

**15 LGPS Collaborative Working (Agenda item 6)**

The Committee considered an update on the wider national position in respect of collaboration within the LGPS and in particular the potential impact of an announcement contained within the summer budget.

The report set out details of the DCLG update on 21 August 2015 and the passive equity collaborative working with LGPS funds.

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

- The Government was looking at proposals to change regulations to enable LGPS investment pooling. The Council needed to examine the process of collaborating between different pension funds to ensure the right balance was achieved between local sovereignty, local style and cost reductions. It was important that this Council was ahead of the game in introducing collaborative working
- He was requesting that he be granted delegated authority to work with six other pension funds to merge the procurement of passive investments to enable the work to be completed by the end of October. An external company had been engaged with a view to negotiating a reduced fee for the combined Pension Fund operations. Effectively one Pension Fund would be serviced instead of 7 separate funds. It was anticipated that the combined pension funds would total £6bn and a reduction in the fee could result in savings of £170,000 pa for the Council although the external company had indicated that there was potential for even further savings
- The Government was also pushing councils to consider changing their approach to active investment funds on the basis of a collective investment vehicle. There was potential for cost reductions of such an approach in that financial reports would only need to be considered by one Committee rather than multiple Committees. There would be governance issues that needed to be considered in relation to the possible loss of challenge. It was important that the Council was able to prove that it was doing enough to lower the cost of these funds to avoid any possible punitive measures from the Government.

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

- What were the risks of making multiple changes to the governance arrangements for the Pension Fund and what would be the cost implications of such changes? The Chief Financial Officer stated that it was possible that in the future the Government could push for a Passive National

Fund for example. Should this be the case then the proposed changes to collaborative working would leave the Council in a stronger position to meet this potential change. The cost of such a change would be minimal. However Active Investment Funds operated differently and if the Council decided to make an early change to the governance arrangements, it would be quite expensive to change in the future and would require a number of years to payback. Therefore the recommended approach to Active Investment Funds would be to wait and make the change once and only once, ensuring that the chosen partners matched the Fund style

- The proposed approach to collaborative working was sensible and cautious given the lack of clarity from the Government
- There were concerns about the transferring of costs from the Government to the Pension Funds and the Committee needed to be realistic about that
- A major issue for the Committee was how to manage the Pension Fund deficit. The scheme would not be able to sustain further strain on it without its sustainability being called into question.

**RESOLVED that:**

**a) the update regarding the wider national position in respect of collaboration within the LGPS be noted; and**

**b) he be granted delegated authority to conclude the matter of a joint procurement of a passive investment manager with six other LGPS administering authorities.**

**16 Pension Fund Annual Report and Accounts 2014/15 (Agenda item 7)**

The Committee considered the Pension Fund Annual Report and Accounts 2014/15.

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

- Subject to the approval by this Committee, the Audit Certificate for the Pension Fund Annual Report and Accounts 2014/15 would be signed
- The Accounts had been approved by the Audit and Governance Committee
- Investment earnings had been maintained and contributions and dividends had created a surplus

- Membership of the Pension Fund had increased which was a positive development in terms of the investment of funds albeit with additional administrative requirements for the scheme managers
- The management of the fund's liabilities represented the biggest risk and concern for the scheme and this would be an area of focus in the future.

In the ensuing debate, it was commented that the Government needed to provide national guidance in respect of Pension Fund liabilities. In response, it was stated that there was a danger that Government intervention might mean a move away from councils' right of challenge.

**RESOLVED that the Pension Fund Annual Report and Accounts 2014/15 be approved.**

**17 Administering Authority Update (Agenda item 8)**

The Committee received an update on the research project on the future provision of the Administering Authority.

The report set out details of Funds working in partnership between Bradford and Lincolnshire and Lancashire and London as well as an update on the Worcestershire Pension Fund.

The Human Resources – Service Centre Manager introduced the report and made the following points:

- There was a push, particularly from the Pensions Minister, for greater collaboration between Pension Funds. A degree of collaboration already took place to share technical knowledge and costs but further challenge in this respect was required. Early attempts to recruit a project officer to undertake the research had been unsuccessful
- Lincolnshire County Council had decided to find and external provider for their Pensions Administration and the Bradford Fund had won a 7 year contract to provide this function. Although there were initial difficulties in setting up the change in a tight timeframe, the scheme was now settling down. The operation of this scheme would be kept under review to establish whether any lessons could be learnt for Worcestershire's scheme and reported back to this Committee at a later date
- Lancashire County Council and the London

Pension Fund had decided to bring together the asset pools of the two Funds to create a £10m pot of assets for investment purposes to be held in a new holding company. The model extended to incorporate the pensions administration. The Funds were not being merged so the two organisations had maintained their sovereignty. The progress of this arrangement would be monitored
- It was important that whatever approach Worcestershire Pension Fund decided to take, it should be efficient, collaborative and help to reduce costs in the long term.

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

- What was the logic behind the collaboration between Lancashire and London? The Human Resources – Service Centre Manager advised that there was pressure from the Government on Pension Funds to provide evidence of collaboration. The London Fund was a large fund and therefore there were potential savings from combining the funds, particularly for Lancashire
- The issue for the Worcestershire Pension Fund was to find suitable partners in neighbouring Pension Funds and to learn lessons from challenges experienced by existing collaborative arrangements elsewhere
- Was there a risk in trying to pre-empt Government thinking on collaborative working between pension funds? The Human Resources – Service Centre Manager commented that the Pension Fund needed to be pro-active in its approach to collaborative working but this was a matter that would be brought to a future meeting of this Committee for determination.

**RESOLVED that the update on the research project on the future provision of the Administering Authority be noted.**

**18 Pension Administration update (Agenda item 9)**

The Committee received a general update on the Pension Administration arrangements.

The report set out details of the end of year arrangements and Annual Benefit Statements, the 'Tell Us Once' initiative, end of contracting out and GMP reconciliation, member self service and employer self service and the Shadow Pension Administration Advisory

Forum.

The Human Resources – Service Centre Manager introduced the report and made the following points:

- Business continued as usual for the administration authority
- There was an increase in overall membership of the scheme partly driven by the auto-enrolment process. Anyone who had opted out of the Pension scheme would be automatically brought back in. This would mean a peak of activity at the auto-enrolment stage. It was anticipated there would be only a small percentage change in the numbers remaining in the scheme as a result
- The Council had returned its Annual Benefits Scheme to the Government on time, despite the Government bringing the deadline forward, thereby avoiding a fine
- There was a new design for the Annual Benefits Statement which should make it easier to manage queries from members. She thanked her team for their work in delivering this change. A small number of Statements had not been delivered as a result of a lack of information being supplied by the employer or where someone had left the scheme without notification. It was hoped to have 100% notification by the end of the year
- The Council had been working with the LGE and the Government towards the 'Tell Us Once' system which would automatically notify government bodies of the death of a member to allow records to be updated and payments stopped and/or adjusted. The scheme would not only reduce direct costs but also reduce the amount of administration
- The Administering Authority had registered with Her Majesty's Revenue and Customs (HMRC) reconciliation service to assist with the reconciliation of scheme GMP membership records in advance of the State Pension Scheme changes and cessation of contracting out in April 2016. There would be an increased cost as a result of administering the reconciliation but it would clarify the responsibilities for liabilities
- The testing of the members' self service modules was proceeding. Self service would allow members to access their records securely. It was also expected to reduce the cost of sending Annual Benefits Statements by providing access to them on-line.

In the ensuing debate, the Human Resources – Service Centre Manager confirmed that there was a statutory duty to provide members with an Annual Benefits Statement and the savings would be made from not posting the statement to each individual member.

**RESOLVED that the general update from the Administering Authority be noted.**

The meeting ended at 11.10 am.

Chairman …………………………………………….