Part 1 Minutes: Pensions Panel held on 24 July 2013

Start: 10:15am

Present: Mr Michael Brown (Chairman), Mr Peter Lamb, Mr Peter Metcalfe, Mrs Deborah Urquhart, Mr Gordon Marples, Mr Bernard Smith, Mr Nigel Peters, Dr James Walsh, Mr Steve Waight, Mr Daniel Sartin

Apologies:
Apologies were received from: Richard Hornby

In Attendance: Caroline Burton, Laura Davis, Vickie Hampshire, Steve Harrison, Paul Audu, Tara Atkins

Also in Attendance:

Hymans Robertson: Bryan Chalmers and Steven Law

The Chairman welcomed attendees and in particular Bryan Chalmers and Steven Law from Hymans Robertson and Tara Atkins from HR.

PART I

Agenda Item: 1 Declaration of Interests

1069. Panel members and officers were invited to declare any personal or prejudicial interests that they may have in relation to items on the agenda and were reminded to make such declaration at any stage during the meeting, if it became apparent that it would be required when a particular item or issue was considered. No new declarations were made.

Agenda Item 2: Approval of the Part I Minutes Held on 14 June 2013 and Matters Arising

1070. The Chairman pointed out that a letter had been sent to Francis Maude MP in response to the issue on merging Pension Funds discussed at the last Panel meeting and this was circulated at the Panel (reference para 1066 June minutes).

Agenda Item 3: Draft Annual Report and Accounts

1071. The report was introduced by the Chief Technical Officer. The Panel was asked to note the draft Pension Fund Annual Report and Accounts and the correcting sheet tabled at the meeting highlighting minor amendments resulting from rounding errors (attached for the record).

1072. There was some discussion. The Fund appreciated in value significantly during the year and performance at total Fund level was very good. The Fund was ranked in the 13th decile of the WM Local Authority peer group. All the fund managers bar property (Cushman & Wakefield) and private equity (Pantheon and Partners Group) had performed well.

1073. The Panel asked Hymans Robertson whether, from their experience, the West Sussex performance was exceptional. Hymans Robertson commented that to the best of their knowledge many pension funds had performed well by virtue of the equity markets which recovered strongly during the period.

1074. The Annual Report and Accounts were still in draft form but the audit review was progressing well.

1075. The Panel queried administration charges which rose by 1% during the year and asked whether this was benchmarked. The Chief Technical Officer advised the Panel that the National Association of Pension Funds (NAPF) was looking to benchmark costs and the Fund would participate in that, but results were not available yet. Hymans Robertson advised that they thought West Sussex administration charges were towards the lower end (as a % of payroll) relative to peer group local authorities.

1076. The Chief Technical Officer advised that legal charges had increased to £30 per hour during the year. The Panel requested that a footnote would help explain the 433% rise in legal costs to £80k. The reduced audit fee following abolition of the Audit Commission was pointed out by the Chairman.

1077. The Panel enquired about the impact of Capita on the overall administration charges. The Chief Technical Officer advised that the administration fee included Capita and other expenses, and these had reduced within the overall total as expected as part of the outsourcing.

1078. Despite the good performance, the Panel noted that some employers in the Fund were likely to face large deficits.

1079. The Panel noted that the 1.7% outperformance achieved by the Fund during the year equated to, very roughly, £30m extra. This was a significant amount and took pressure of employers and ultimately taxpayers. Put another way, it was equivalent to perhaps about 8% or 9% of employer contributions. Also, the Fund's 13th percentile ranking in the WM league table was equally commendable.

Resolved**:**

1080. The Panel noted the draft Pension Fund Report and Accounts for 2012/13 and the amending note tabled at the meeting.

Agenda Item 4: Update on Reform of the Local Government Pension Scheme (LGPS)

1081. The Chief Technical Officer introduced the report together with draft responses to various consultations. The key points were:

- Technical consultation

This had been circulated to the Panel informally, rather than as a part of the report, as it had raised no issues of principle and was essential paving the way for the introduction of the new Scheme from 1 April 2014. Any comments were also invited informally.

- Call for Evidence
  The Panel was advised that the Call for Evidence had raised some fundamental questions on the structure of the LGPS. Fund mergers were on the agenda as part of a drive for efficiency.
- Pensions Board
  The proposed governance initiative was aimed at introducing scrutiny over the Pension Fund with equal representation of employers and employees for this activity.

1082. The Panel sought Hymans Robertson's views on the proposed merger of LGPS Funds. Hymans Robertson's impression was that there was some momentum about the some change, especially from a London perspective. There was real pressure to amalgamate London LGPS Funds and consolidation of Funds was also likely across the UK. Mergers are good only if returns or better or efficiency is improved – no evidence this is inevitably linked to the size of Funds.

1083. The Panel discussed that Government seemed unlikely to maintain the status quo of 89 administering authorities or merging the existing local administering authorities into one super authority. Intuitively, Ministers were seeking between 2 and a number less than 89 new administering authorities.

1084. The Government was seeking to increase efficiency amongst LGPS Funds but it remained unclear what the exact aim was – as bigger was not always better. There were pockets of very good practice, West Sussex being an example. However, it seemed to view some LGPS Funds were in need of improvement in terms of their governance and performance.

1085. Given the momentum for merger, the best defence was for West Sussex and other LGPS, opposed to the initiative, to gather real evidence to challenge the underlying assumptions and explode the myth that there's correlation between size and performance –evidence that data on size and efficiency did not exist. Also, West Sussex and like-minded Funds needed to act quickly to rebuff claims circulating in the media, whilst reserving the right to lodge supplementary submission. The Panel's view was that diversity of Funds was a useful antidote to potential poor performance of super-sized Funds. Also, the cost of merger/regulation was prohibitive.

1086. In addition to the merger debate, Ministers were pushing for increased information and consolidated data, for example, combined LGPS accounts.

1087. The independent adviser said that there appeared to be an assumption that bigger Funds would assist funding of infrastructure projects, but

there was no evidence that would simply happen, and creating bigger Funds was unlikely to improve performance. The Panel was advised that the Government was planning to set up a Shadow Pensions Board.

1088. The Panel considered that diversification to infrastructure was a factor for the pressure of mergers, but the point was made that this did not make the returns from this asset class any more attractive, as compared with other assets when looked at by the Fund returns were relatively modest. The Panel was concerned that creating giant Funds could increase risks, if the Fund was not well run, therefore concentration in 'super funds' had its risks as well.

1089. The Panel queried question 9 on page 99 and asked that it should be clarified as to who would be the existing Committee who could absorb this scrutiny role (the Regulatory and Accounts Committee seemed appropriate).

Resolved:

1090. The Panel agreed that officers, in consultation with Hymans Robertson and the Panel's independent adviser, should gather evidence to counter the arguments for merging Funds.

1091. The Panel agreed the draft responses to consultations with minor changes.

1092. The Panel agreed the recommendation that West Sussex should continue to lead on the Society of County Treasurers' (SCT) collaboration initiative.

ITEM 3

NOTE ON AMMENDMENTS TABLED TO 2012/13 ANNUAL REPORT

EXPLANATION

1093. Some aspects of the performance information has been amended on the draft Annual Report following further checking of the WM performance data on which the Report is based and to ensure consistency with the annual performance report figures (in Agenda item 6A).

1094. The wording in paragraph 54 also needs an amendment.

CHANGES

Top of Page 13

1095. During 2012/13, the Fund performance was 15.6%, outperforming the benchmark by 1.7% (amended from 1.9%). The long term relative performance versus the Fund's benchmark is shown below.

Page 22 – Table after paragraph 24

	2012/13 %	3 Yrs Annualised %	5 Yrs Annualised %	10 Yrs Annualised %	20 Yrs Annualised %
Fund	15.6	9.7	8.2	10.5	8.3
Benchmark	13.7	8.5	6.9	9.7	7.9
Relative return	1.7	1.2	1.3	0.8	0.4
Local authority average	13.8	8.1	6.5	9.4	7.8
Percentile position	13	10	13	7	10

NB Relative returns amended from 1.1% (3 years), 1.1% (5 years) and 0.7% (10 years). The percentile position for 2012/13 was 14.

Page 23 - Fund Manager Performance

1096. The value of Baillie Gifford's portfolio grew by 18.9% from £925.3m to £1.081bn during the year. UBS saw its portfolio appreciate from £794.4m to £918.9m or 15.6%. Both managers outperformed their respective benchmark during the year. The Fund benefited from the managers' complementary styles. Baillie Gifford outperformed the benchmark by 3.4% (was 3.0%) (with a return of 18.3% relative to benchmark return of 14.9%). UBS achieved a return of 16.4% and outperformed the benchmark of 14.9% by 1.5% (was 1.2%).

Page 30 (Paragraph 54)

1097. The Fund has a strategic target allocation of 5% to private equity. However, following a review by the Pensions Panel during the year, it was decided to exit this asset class by making no further new investments (replaces 'at the earliest opportunity').