Part I Minutes of the Pension Fund held on 28 January 2013

Present: Mr Michael Brown (Chairman), Mr Steve Waight, Mr Robert Dunn, Mr Mick Hodgson, Mr Clem Stevens, Mr Andrew Smith, Dr. James Walsh, Mr Gordon Marples,

In Attendance: Caroline Burton, Richard Hornby, Rachel Wood, Vickie Hampshire.

Apologies: Steve Harrison

Declarations of Interest

1015. Members and officers are invited to make any declaration of personal or prejudicial interests that they may have in relation to items on the agenda and are reminded to make any declarations at any stage during the meeting if it becomes apparent that this may be required when a particular item or issue is considered.

1016. It is recorded in the register of interest that Mr Stevens' nephew, Peter Hadden, is a partner in Baillie Gifford, Mr Hodgson is a Governor for Collyers Sixth Form College, Mr Browns' son is employed by Delloitte, Mr Smith is a deferred pensioner of Mercer and Mr Hornby is a co-opted Governor for the University of Chichester

1017. Dr. Walsh advised that he served on other bodies who are employers within the Scheme.

Agenda Item 1: Approval of Part I Minutes of the Pensions Panel held on 29 October 2012 and matters arising

1018. It was noted that the minutes should reflect that Mr Brown, Mr Dunn, Mrs Earwaker and Mr Hornby had given their apologies for the meeting. Their absence was reflected in minute note 989 and 990.

1019. The minutes were agreed.

Agenda Item 3: Business Plan

1020. The Executive Director introduced his report which updated the Panel on performance against objectives set for the year (1 April 2012 to 31 March 2013). This is now a standard item on the agenda.

1021. The Executive Director drew the Panel's attention to:

- The preparation work ahead of the 2013 valuation exercise. Early engagement with the Actuary and employers was a high priority and was already underway.

- That Capita had now been in place for six months and have developed a greater understanding of the Service and improvements going forward. Several key milestones should be met in Q4 2012/13 including the signoff on the administration system (Hartlink), member self service via the website and a re-configuration of the pensioner payroll run.

- The work on the Hymans audit which should be concluded in Q4 2012/13 with final sign off by Governance in March.

- The work now underway, as you would expect, to prepare for year end accounts.

1022. The Panel raised a query about the replacement of Alan Price as the Scheduled Employer representative following the disbanding of the Police Authority on November 2012. The Executive Director suggested three options:

- To extend the invitation to the Police to have a representative again

- To consult other Scheduled Employers about a representative and ask them to elect

- To do nothing

1023. The Executive Director suggested that whilst there was nothing within the Regulations to prescribe who should sit on the Pensions Panel, and representative differs from Authority to Authority, it was considered best practice to have a deferred and pensioner representative, as well as a range of employer representation on the Panel. The Panel felt that this issue needed to be discussed further to provide transparency and communication to employers within the Fund but were keen that any employer sitting on the Panel were as representative as possible and not invited purely for the sake of it. It was noted that Academies are a growing group of employers within the Fund.

1024. The Fund Adviser indicated that there was a very mixed picture in terms of representation on Panels.

1025. The Executive Director agreed to survey other Authorities and prepare a paper for the April meeting of the Panel.

Agenda item 4: Internal Audit Reports

1026. The report concluded work undertaken by internal audit as part of their annual strategy to provide assurance to the Panel on the

adequacy of systems and controls including the governance arrangements.

1027. The first report looked at the external service provider's Internal Assurance Reports which sought to provide assurance on their systems and processes. Internal audit concluded that they could place Satisfactory Assurance on the effectiveness of the overall control environment. However whilst the reporting provided by both private equity managers have improved, internal audit remained concerned that C&W do not provide a service auditor's report.

1028. Internal Audit's second report looked at the governance arrangements, specifically whether the process of performance management and reporting are adequate, investments are administered by FSA institutions and investment strategies and policies and risk management processes are in place. Here Internal Audit concluded that they could place Substantial Assurance on the effectiveness of the overall control environment. Their recommendation was consistent with what the Panel had discussed previously around the development of a training programme for the Pension Panel and Senior Managers.

1029. The Panel commented that both reports were positive.

1030. It was agreed that the requirement for suitable control reports was included as part of the re-tendering exercise for a property manager.

1031. Whilst it was noted that there appeared to be a lot of cross checking involved the Executive Director suggested that given that it only takes one manager to do something against the Fund's guidelines or interests for there to be a significant impact, it was important for the Panel to receive an independent view over and above what officers say and to have what may feel like bureaucracy is preferable than the risk of an issue going unnoticed.

Agenda Item 5: Consultation

1032. The Chairman started the discussion by noting his disappointment that the process that was kicked off by Lord Hutton to give a welcome relief on the costs of the Scheme has resulted in a new design which is unlikely to produce the intended level of savings.

1033. The Executive Director noted the important procedurally to have the Regulations in place by 31 March 2013 to allow the Actuary to take account of whatever benefits or costs in the valuation work.

1034. The scheme design has been 'known' for some time and this consultation confirms the intention. The report puts some suggested responses to the various proposals within the LGPS Regulations 2013 consultation.

1035. The Panel questioned the reference to the average employee contribution rate of 6.5% meaning that the balance between employee and employer contributions remained unsustainable. The Executive Director suggested that this comment went back to Lord Hutton's intention that there needed to flexibility within the Scheme to avoid a full review of its design each time that the costs needed to be considered. The further consultation on cost sharing and contribution caps will therefore be of some significance where there needs to be an opportunity to adjust the ratio between employer and employee contributions.

1036. The Panel noted the estimated funding level which was primarily driven by the fall in gilt yields and were concerned about the impact that this could have on employer budgets. The mechanism that the Government had chosen to use to put money into the economy had had a notable impact on pension fund despite stock markets performance. The Panel requested that the Council's response should include criticism about the continuing burden on the Council's revenue account.

1037. It was noted that the new Scheme retains the option for members to convert pension to a lump sum at a rate of £12 for each £1 per annum of pension foregone. This was originally introduced as a cost saving for the pension fund to fund the cost of the temporary re-instatement of the rule of 85, and the transitional protections associated with its abolition.

1038. On a separate announcement the Panel were also disappointed with the Government's rhetoric regarding access to the LGPS for Councillors and felt that MP's view was incongruous given their own pension arrangements.

Agenda Item 6: Admin Authority Discretions

1039. The Executive Director introduced his report which codified a series of items which were otherwise normal practice, in many cases actioned through the Scheme of Delegation.

- A5(1) & A7(2) & A7(4) refer to whether to agree to an admission agreement with a community admission body. The Council's approach to admitting Community Admission Bodies is restrictive. Therefore it is important for the Executive Director to retain a prudent approach through the need to agree admission terms.

- A38(3) refers to the approach taken on the termination of a participating employer and to ensure no underfunding is present by the time the bodies participation in the Fund terminates. This is an important risk control measure to increase the likelihood of all employers paying for their liabilities within the fund even when they cease to have active members. The Regulations allow this to be done pre-emptively

when the Fund considers that there is a risk of the employer ceasing to participate in the Fund and the Fund will adopt a prudent gilts based valuation.

- A41(2) refers to whether to require any strain on Fund costs to be paid "up front" by employing authority following redundancy, flexible retirement. As the Panel would expect, the Fund requires that employers pay the lump sum as an immediate payment rather than spreading.

- A42(1) and A42(4) were uncontroversial covering the frequency of payments from employers and the supporting information but were important for management of the Fund.

1040. It was confirmed that the reference to Club Transfer and Non Club Transfers (A81(1)(b) Agreement to bulk transfer payments) related to the Transfer Club which is a network of public sector pension schemes generally providing membership credits of equivalent lengths when a member transfers between them whilst personal pension plans not provided by companies in the Transfer Club are rarely of an equivalent length and can vary greatly from scheme to scheme. This definition will be included in the report to Governance.

1041. The Executive Director noted that employees could challenge the application of a discretion through the Ombudsmen or through the County Council's complaints procedure, as it was a Council function.

1042. The Executive Director sought the Panel's instruction on whether he should report to them on any decision, report only when the decision has a particular impact in terms of numbers or value or report on the performance of specific discretions. It was agreed that the Executive Director would report on a six monthly basis on each discretion and, whilst not diluting the Executive Director's liability for making decisions, this would provide the Panel the opportunity to discuss the application of the discretions.

1043. It was noted that the document was confusing reflecting Regulations rather than themes but officers would give some thought about how to present it in a more helpful form before sending to Governance.

Agenda Item 7: Treasury Management Policy

1044. The Executive Director introduced his paper which outlined the specific policy for Pension Fund. The Fund intends to keep balances to a minimum (c.£8m) and any sums held for investment are sent to the fund managers. The report notes that the rate of return has fallen for the year from 0.77% to 0.63% reflecting market conditions and the fact that the Strategy invests for very short periods.

1045. The Executive Director highlighted the main change to the proposed Strategy - to reduce the minimum acceptable short term rating as provided by Moody's to P-1 to P-2. It was not a case that there was a suggestion that the Panel should be more relaxed but it will reintroduce RBS and Natwest as approved investment counterparties.

1046. The Panel asked what the direct costs were for maintaining a separate treasury management strategy. The Executive Director suggested that the main costs related to the need to maintain a separate bank account and has introduced transaction costs to the Fund which would not have been present before the Regulatory change. It is also considered to be less efficient, has introduced a requirement for the Panel to approve a separate Strategy document and exposes the Pension Fund to counterparty risk, which was not present when investments were guaranteed by the County Council.

1047. The higher rate of return available from NatWest was noted (1.15% compared to an average of 0.50% for Money Market Funds). Money Market Funds had previously been a good inclusion in the strategy for improved returns. There was a lot of sentiment in the market and banks such as Santander were having to work a lot harder than others to raise money in sterling because investors are twitchy about putting money in Spanish banks, even though the UK investments are ring fenced.