Part I Minutes of the Pension Fund held on 29 October 2012

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, Mr Alan Price, Mrs. Chris Earwaker

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

Chairman

985. Mr. Walsh nominated Mr. Waight as Chairman. This was agreed by the remainder of the Panel.

Declarations of Interest

986. 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.

987. 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 and his son works for Henderson's Investments, Mr Browns' son is employed by Delloitte and Mr Smith is a deferred pensioner of Mercer.

988. Mr. Walsh recorded that he was a Governor, The Littlehampton Academy. Mr. Smith is Chairman of Governors, Tangmere Academy.

Apologies

989. Apologies were received from Mr. Brown, Mr. Dunn and Mr. Hornby.

990. Mrs. Earwaker had stood down from her role as employee representative. It was anticipated that a replacement would attend the next Panel meeting.

991. Mr. Price was attending the Panel for the last time. The Panel thanked him for his contribution over the years which they genuinely felt had been helpful.

Agenda Item 2 – Approval of Part I Minutes of the Pensions Panel held on 25 July 2012 and Matters Arising

992. The Panel requested that item 964 of the minutes was amended as follows:

> 964. The Panel were pleased to see that the performance provided was very ~~credible~~ creditable. However it was noted that the comparison to the Local Authority Average whilst being a useful indicator had a certain element of variance in it due to the strategies adopted by the different Funds participating.

993. On the proposed changes to the Local Government Pension Schemes (items 971-979) the Panel commented that any consultation of employees was ambitious.

994. The analysis of membership 'pots' which was discussed at the Panel's October meeting will be developed with Capita and reported to the Panel as soon as available.

995. It was noted that Governance Committee had agreed that training arrangements should be formally monitored and reported on, as part of their consideration of the Fund's Annual Report. This will be formalised in the Panel's quarterly Business Plan and Attendance reporting.

Agenda Item 3 – Update on Business Plan & Risk Register

996. It was noted that the update provided on the Administering Authority and Employing Authority discretions should be amended to read as follows:

> *Undertake audit of Administering Authority and Employing Authority discretions to ensure they have appropriate employer discretionary policies in place and that they are reviewed periodically.*
>
> *UPDATE: Hymans Robertson has conducted a full review of the Administering Authority Discretions and Employer Discretions. Their report indicated that there was a lack of documentation supporting the implementation of discretions. Two training sessions for Employers on their responsibilities under the Discretions have been held by the Council and the recommendations set out by Hymans are being developed for full implementation by 31 March ~~2012~~ 2013.*

997. The Panel discussed the training register. It was requested that there should be more encouragement to attend conferences and other training sessions but attendance should be spread across events to ensure that a range of matters were covered by the Panel collectively.

998. The Panel discussed the risk that fund managers adopt inappropriate strategic investments or has inadequate processes in place to comply with contractual requirements. The Adviser suggested that this could cover the risk of buying high risk equities in a lower risk mandate. However in this instance, systems should pick this up as a breach of the mandate conditions and if the restrictions were breached, the Fund would be able to sue the manager. However there has been recent coverage of high profile internal fraud (undetected trading) which has been an issue on the dealing side with offenders often moving from back office to the front desk operations and therefore knowing how to work around the controls. This risk is more relevant for derivatives / swaps rather than traditional equities and bonds. The Panel requested that the risk matrix was developed to cover impact and probability.

Agenda Item 4 – Cost Impact of Changes to the Local Government Pension Scheme and Funding Update

999. The Panel noted that changes to longevity were a significant issue impacting the Pension Fund.

1000. Looking at the impact of the changes to employer contribution rates, the Panel suggested that the reforms had not gone far enough and indicated that they would not be surprised if the issue about affordability of public sector pensions was not revisited in a few years time. To this end the Panel noted that 'Work Stream 2' of the LGPS Pension Reform discussions, which look at cost ceilings, would be important.

1001. It was noted that whilst the report provided a useful indicator on the impact of the reforms to the Fund in general, the savings (and in some cases costs) following the 2014 changes will vary from employer to employer. As a rule of thumb, the younger the active membership profiles of an employer, the greater the savings.

1002. Based on the analysis by the Fund's Actuary, the effect of moving to a 1/49 accrual rate had increased the cost of the Scheme by 4.8% as members will earn more pension for each year of service. The Panel indicated that it was no surprise that members found this to be a favourable solution.

1003. The Panel recorded their disappointment regarding the level of savings versus initial suggestions.

1004. Discussing the funding update, the Panel noted the impact of the changes to the discount rate assumptions that would be applied now in comparison to 2010. Gilt yields form the foundation of the discount rate assumptions and these have fallen dramatically since the last valuation, increasing the value of the liabilities for the Fund. The Fund's investments were in line with the Actuary's assumptions, which was of some comfort.

Agenda Item 5 – Admission Policy for Academies

1005. The Panel were required to make three decisions regarding pooling, the past service adjustment and the period over which any deficit should be recovered.

Decision 1

1006. The Panel took the view that the suggestion to pool Academies with the County Council would place a higher risk on the County Council for a growing number of employees to whom it has no control over, and this was not acceptable. The term Academy covers a multitude of employers who have their own funding arrangements and it was the Panel's view that their admission to the Pension Fund should be separate to the County Council.

1007. The suggestion that the Academies should receive a bespoke contribution rate was considered to be fairer as this put the pensions liability where it should be, namely with the employer, and for this option there was no issue of cross subsidy.

1008. However the Panel also conceded that the ability to stabilise the individual employer contribution rate via pooling had some merits.

1009. The Panel requested that advice was sought on providing Academies with the choice between pooling with each other and receiving a bespoke contribution rate. In absence of any legal or governance issues to the contrary, the Panel were of the view that these two options could be presented to the Academy for decision.

Decision 2

1010. On the issue of calculating past service adjustments the Panel considered that it was inappropriate for the County Council to take on additional risk by retaining any funding deficit relating to members of the Academy (i.e. members transferring to the Academy fully funded) and instead considered that Academies should adopt the same funding level as the County Council assuming that deferred and pensioner members are fully funded.

1011. In terms of the period over which the deficit should be recovered, the Panel agreed that twenty years seemed reasonable reflecting their long term nature.

1012. It was noted that paragraph 27 of the report should read

> 27. Whilst Academies are generally viewed as being fairly 'safe' by the Pension Fund, there have been recent instances where ~~an~~ ~~Academy~~ Academies ~~has~~ have failed.

Part II Matters

1013. The Chairman asked members to indicate at this stage if they wanted the meeting to consider bringing forward into Part I the items in Part II of the Agenda.

1014. Resolved – That under Section 100(4) of the Local Government Act 1972, the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Part I of Schedule 12A of the Act (paragraph 3: financial or business affairs of any particular person (including the authority holding the information)) and that in all the circumstances of the case the public interest in maintaining the exemption of the information outweighs the pubic interest in disclosing the information.

Chairman _____ Date _____