

Essex Pension Fund Board

**Minutes of a meeting of the Essex Pension Fund Board held at 2.00 pm
at County Hall, Chelmsford on 29 June 2011**

Membership/Attendance

Essex County Council (6)

- | | |
|---|-----------------------|
| Cllr R L Bass (Chairman) | Cllr N J Hume |
| * Cllr Mrs S Barker (substitute for
Councillor J Aldridge) | * Cllr M C Lager |
| * Cllr D M Finch (Vice-Chairman, in
the Chair) | Cllr T C Smith-Hughes |

District/Borough Councils in Essex (2)

- | | |
|---|---|
| Cllr J P F Archer, Maldon District
Council | Cllr Mrs P A Challis, Castle Point
Borough Council |
|---|---|

Unitary Councils in Essex (2)

- | | |
|--------------------------------|--|
| Cllr M Healy, Thurrock Council | * Cllr B Kelly, Southend on Sea
Council |
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Essex Police Authority (1)

- * Cllr S M Walsh

Essex Fire Authority (1)

- * Cllr E C Johnson

UNISON (to represent all Scheme members) (1)

Vacancy

Smaller Employing Bodies (1)

Vacancy

* Present

The following were also in attendance:

Cajetan	Chukwulozie	Assistant Director, Internal Audit and Risk Management Consultancy Services
Jody	Evans	Pensions Services Manager
Peter	Lewis	Interim Assistant Director – Financial Strategy
Kevin	McDonald	Group Manager, Investments
Karen	McWilliam	Independent Governance and Administration Adviser
Paul	Middleman	Fund Actuary (Mercer)
Rob	Murray	Audit Commission
Martin	Quinn	Head of Investments
Judith	Dignum	Governance Team Manager, Secretary to the Board

1. Chairman and Vice-Chairman

The Board noted the election of Councillor R L Bass and the appointment of Councillor D M Finch as Chairman and Vice-Chairman respectively of the Investment Steering Committee and, therefore, Chairman and Vice-Chairman of the Board for the Municipal Year 2011/12.

2. Apologies for Absence

Apologies for absence were received on behalf of Councillors J Aldridge, J Archer, R L Bass, Mrs P A Challis, M Healy, N J Hume and T C Smith-Hughes.

3. Introductory Remarks

The Vice-Chairman welcomed Members to the first meeting of the Forum under the revised membership structure. He paid tribute to the work of Councillor Mrs Tracey Chapman, formerly Vice-Chairman, and to Councillors Anthony Jackson and Barry Johnson who were no longer members. It was agreed to send a letter of thanks to Mrs Chapman, Mr Jackson and Mr Johnson thanking them for their contribution to the Board's work.

4. Declarations of Interest

It was acknowledged that all Members under the age of 75 were entitled to join the Local Government Pension Scheme and some Board members had in fact joined.

No further declarations of interest were made.

5. Minutes**Resolved:**

That the minutes of the Essex Pension Fund Board held on 9 March 2011 be approved as a correct record and signed by the Chairman.

Governance**6. Membership and Terms of Reference**

The Board received a report (EPB/10/11) by the Governance Team Manager which set out the Board's membership and terms of reference.

7. Annual Review of Governance Policy and Compliance Statement

The Board considered a joint report (EPB/11/11) by the Head of Investments and the Pensions Services Manager which presented a revised Governance Policy and Statement of Compliance for approval. The Head of Investments asked the Board to note that following clarification from Communities and Local Government of what constituted an independent professional observer,

it had been established that the Fund's governance policy was in fact fully compliant with the guidance issued by the Secretary of State and that the Statement of Compliance should be amended to reflect that position. Members were pleased to note this.

Resolved:

That the revised Essex Pension Fund Governance Policy and Statement of Compliance be approved subject to its amendment as notified by the Head of Investments.

8. Update on 2011/12 Business Plan

The Board received a joint report (EPB/12/11) by the Head of Investments and the Pensions Services Manager which provided an update on the Essex Pension Fund 2011/12 Business Plan.

In presenting the report, the Head of Investments drew attention to the serious workload implications for both Investments and Pensions Services staff arising from the growing numbers of schools opting for academy status.

The report was noted.

9. Pension Fund Risk Management

The Board considered a joint report (EPB/13/11) by the Pensions Services Manager and the Head of Investments which provided an update on the latest assessment of Pension Fund risks. In accordance with the Board's previous instruction, the report referred only to 'key risks' – i.e. those with a residual risk score of 6 or more on the Fund's risk register or former key risks subject to recent change.

In presenting the report, the Pensions Services Manager highlighted the increase in the risk score in respect of achieving the objective to '*deliver a high quality, friendly and informative service to all beneficiaries, potential beneficiaries and employers at the point of need*'. This change had occurred due to the growing numbers of schools opting to become academies. As all academy staff have the right to remain within the Local Government Pension Scheme this results in increasing over a compressed period the number of employers within the Fund. The situation would be kept under review.

The report was noted.

10. Measurement against Fund Objectives - Scorecard

The Board considered a joint report (EPB/14/11) by the Independent Governance and Administration Adviser, Head of Investments and the Pensions Services Manager which put forward the initial Pension Fund scorecard showing how the Fund is performing against the agreed objectives.

In presenting the report, the Independent Governance and Administration Adviser explained that Member feedback on how the scorecard should be developed, in particular on the relative importance of the measures adopted, would be appreciated.

The Chairman thanked Nick Ghiacy, Performance and Improvement Officer, for his work in preparing the scorecard.

The Board requested that for the time being the full scorecard be reported to all meetings. In response to a question, Members noted that the term 'polarity' referred to the preferred direction of travel for individual indicators (ie whether a high or a low score was desirable in each case).

It was agreed that after the meeting Members should address any further queries or feedback to the Governance Team Manager.

Resolved:

1. That the report be noted.
2. That the full Performance Scorecard be reported to each meeting of the Board for the time being.

11. Pension Board Knowledge and Skills

The Board considered a report (EPB/15/11) by the Independent Governance and Administration Adviser which updated the training plan for 2011/12, considered attendance at conferences and events and provided instructions for members on how to undertake the forthcoming Training Needs Analysis.

The Board noted that as the purpose of the Training Needs Analysis was to identify where further development was needed, no-one was expected to achieve 100%. In addition, new members should not attempt the analysis until they had received their induction training.

Members undertook to advise officers if they wished to attend any of the events referred to in the report.

Resolved:

1. That the updated training plan and the arrangements for completing the Training Needs Analysis be noted.
2. That Members advise officers if they wish to attend any of the events identified in the report.

12. Essex Pension Fund Board Annual Report

The Board considered a report (EPB/16/11) by the Governance Team Manager which presented the draft of the Board's Annual Report for 2010/11 for Member's comments and approval prior to submission to the full Council meeting on 12 July.

In response to a query, the Governance Team Manager undertook to verify that the Board membership was correctly shown.

Resolved

That the Essex Pension Fund Board Annual Report 2010/11 be finalised to take account of comments made at the meeting and submitted to the next meeting of the full Council on 12 July 2011.

13. Internal Audit Annual Report of Pension Fund Work

The Board considered a report (EPB/17/11) by the Assistant Director, Internal Audit and Risk Management Consultancy Services which provided a summary of Internal Audit's 2010/11 work and proposals for 2011/12. It was noted that the information had also been considered by the County Council's Audit Committee on 28 June.

Members were delighted to note the positive outcomes from all three of the audits undertaken during 2010/11, with Full Assurance for Pensions Investments and the Pension Fund Bank Account and Substantial Assurance for Pensions Administration. The Assistant Director, Internal Audit and Risk Management Consultancy Services highlighted the rarity of this and congratulated the staff involved. Members echoed his comments.

The Board agreed that in future, the summary sheet only of each Audit report should be submitted. It was also noted that decisions as to whether similar reports should appear in the public or private part of the agenda would be reached on an individual basis, taking into account the level of risk to the Council in publishing the findings.

Resolved:

1. That the outcome of the 2010/11 Audit Plan and the planned audits of the Pension Fund for 2011/12 be noted.
2. That, in future, the summary sheet only of each Audit be submitted to the Board.

14. External Audit 2010/11: Fee Letter and Audit

The Board considered a report (EPB/18/11) by the District Auditor which outlined External Audit's programme of work and fees in relation to the audit of the Essex Pension Fund's financial statements for 2010/11.

It was noted that the information had also been considered by the County Council's Audit Committee at its meeting on 28 June.

The report was noted.

15. Lord Hutton Review of Public Sector Pensions - Update

The Board received a presentation from the Fund Actuary, Paul Middleman, regarding the key recommendations contained in Lord Hutton's final report of his Review of Public Sector Pensions, published on 10 March. The

presentation focussed on the three principal areas identified in the report (benefit design, risk/cost sharing and governance) seeking to make observations on them, provide an update on the Government response and the potential implications and highlight areas where there was currently a lack of clarity. Mr Middleman expressed disappointment that Lord Hutton had not emphasised sufficiently in his view that the LGPS is an example of good practice in many aspects of governance.

Members received clarification on the following points:

- It was proposed to index salary to National Average Earnings (NAE) for active scheme members. Once in payment, the Consumer Price Index (CPI) would apply. Historically National Average Earnings had run at 1-1.5% above Retail Price Index (RPI) and 2-2.5% above CPI. The reason behind the CARE proposal and the indexing in line with NAE was to ensure that there was a better balance of benefit outcomes over a working lifetime for those with average or low salary progression compared to those members enjoying rapid salary progression who can benefit greatly from a final salary structure.
- The chart illustrating the effects of different accrual rates was based on gross salary. The point had been made previously by Lord Adair Turner (Chairman of the Pension Commission, 2002 -2006) that the pension/salary replacement rate could legitimately be less than 100% as retired people were no longer required to pay National Insurance and other costs. Officers undertook to provide further information on the 'Turner Replacement Rate' to Councillor Mrs Barker.
- The protection of the final salary link for accrued benefits meant that those benefits would be based on salary upon retirement rather than salary at the time the existing scheme was closed and the new CARE scheme started.

Members thanked Mr Middleman for his clear and informative presentation.

Investments

16. Essex Pension Fund Draft Accounts

The Board considered a report (EPB/19/11) by the Executive Director for Finance which provided the draft Pension Fund financial statements included within the draft County Council accounts for 2010/11 and advised of the content and timescale for production of the Pension Fund Annual Report. It was noted that the Draft Accounts, with a number of updates, had also been considered by the County Council's Audit Committee on 28 June.

The Board acknowledged the considerable amount of work that had gone into preparing the Draft Accounts and expressed their thanks to those concerned.

The report was noted.

17. Treasury Management Strategy

The Board considered a report (EPB/20/11) by the Executive Director for Finance which sought approval for the 2011/12 Essex Pension Fund Treasury Management Strategy.

In presenting the report, the Head of Investments drew attention to the changes with regard to the treatment of counterparties placed on 'negative ratings watch, as set out on page 10 of the Strategy. The proposal was to allow the Executive Director for Finance, in consultation with the Chairman of the Board (or Vice-Chairman if the Chairman was unavailable) to exercise discretion to reinstate counterparties on negative watch if circumstances made this desirable or necessary.

In considering whether to approve the proposal, the Board noted the findings of a risk assessment that failure to implement it could result in greater risk as a result of increased concentration of lending. The comment was also made that a serious reduction in the numbers of approved counterparties may encourage those remaining to lower their interest rates, with an associated negative impact on investment returns.

Resolved:

That the 2011/12 Essex Pension Fund Treasury Management Strategy be approved.

18. Investment Steering Committee (ISC) Quarterly Report

The Board received a report (EPB/21/11) by the Head of Investments which provided an update on ISC activity since the last Board meeting. There had been two meetings of the Committee during that period, on 30 March and 9 June, the key focus of both having been to consider the performance of the Fund's investment managers.

It was noted that in accordance with the findings of the review of the effectiveness of the Board and the ISC (as considered at the last Board meeting), ISC agendas and minutes were now circulated to all Board members, who were welcome to attend Committee meetings.

The report was noted.

Administration

19. Independent Review of Pensions Administration

The Board considered a report (EPB/22/11) by the Independent Governance and Administration Adviser which presented an overview of the findings of the Independent Review of Administration.

In presenting the report, the Independent Governance and Administration Adviser drew attention to the Review's largely positive findings and commented that the Review team had been impressed with the expertise they

had encountered and would rank the Fund's administration among the top 10 across the UK. She also referred to the improvement areas identified and the actions that were in progress to resolve the issues raised. The possible need for additional resources to be put in place to achieve this was mentioned.

In response to a query, it was noted that the potential to develop on-line interactive member/employer facilities by means of a link with the E-payroll system was limited. In any event, the forthcoming changes to the LGPS were likely to mean that an entire new system would be required.

Resolved:

1. That the summary findings of the review be noted.
2. That officers develop an action plan and identify resource implications for the key recommendations.

20. Forward Look

The Board received a report (EPB/23/11) by the Governance Team Manager which presented a Forward Look detailing the Board's future business.

21. Date of Next Meeting

It was noted that the next meeting of the Board would take place on Wednesday 28 September 2011 at 2.00pm. Members undertook to reserve the entire day to allow for a training/development session to be held in the morning.

Prior to the close of the meeting, Board members commented on the high quality of the reports submitted.

The meeting closed at 3.15pm.

Chairman
28 September 2011