

## Essex Pension Fund Board

**Minutes of a meeting of the Essex Pension Fund Board held at 2.00 pm at County Hall, Chelmsford on 11 July 2012**

<b>Member</b>	<b>Representing</b>
Cllr R L Bass	Essex County Council (Chairman)
Cllr J Aldridge	Essex County Council
Cllr D M Finch	Essex County Council
Cllr N J Hume	Essex County Council
Cllr M CLager	Essex County Council
Cllr M Mackrory	Essex County Council
Mr K Blackburn	Scheme Members
Ms J Moore	Smaller Employing Bodies

The following officers were also present in support:

Margaret	Lee	Executive Director of Finance
Nicole	Wood	Assistant Director – Financial Strategy
Jody	Evans	Pensions Services Manager
Sara	Maxey	Senior Contributions Analyst, Investments
Kevin	McDonald	Group Manager, Investments
Karen	McWilliam	Independent Governance and Administration Adviser
Graeme	Muir	Fund Actuary (Barnett Waddingham)
Richard	Saw	External Communications
Peter	Tanton	Head of Internal Audit
Jonathan	Wilson	Audit Commission
Judith	Dignum	Governance Team Manager, Secretary to the Board
Graham	Hughes	Committee Officer

### 1. Chairman and Deputy 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 2012/13.

### 2. Membership/Terms of Reference

The Board received a report (EPB/14/12) by the Secretary to the Board which set out the Board's membership and terms of reference. The Chairman welcomed Councillor Mackrory to his first meeting and confirmed that a substitute Member for the Liberal Democrat group could be nominated if deemed appropriate. It was anticipated that the successor body to the Essex Police Authority would nominate a representative after November 2012.

### 3. Apologies for Absence

Apologies for absence were received from Councillors Mrs P A Challis (Castle Point Borough Council), M Healy (Thurrock Council), E Johnson (Essex Fire Authority), B Kelly (Southend-on-Sea Council) and S Walsh (Essex Police Authority).

In addition, apologies had been received from Martin Quinn, Head of Investments and the Board instructed the Secretary to relay their best wishes to him for his continued recovery.

#### **4. Declarations of Interest**

It was acknowledged that all Councillors under the age of 75 were entitled to join the Local Government Pension Scheme and some Board members had done so.

Councillor Mackory declared a personal interest, in that he was a deferred pensioner of the Essex Pension Fund and his son was an employee of Aviva.

No further declarations of interest were made.

#### **5. Minutes**

##### **Resolved:**

That the minutes of the Essex Pension Fund Board held on 7 March 2012 be approved as a correct record and signed by the Chairman.

Additional information was circulated to update Members on matters arising from minute 9 (2012/13 Treasury Management Strategy).

#### **6. Variation in the Order of Business**

With the prior consent of the Chairman, the order of the agenda was amended so that Item 11 on the published agenda, External Audit 2011/12: Audit Plan, was considered next. Thereafter, the running order of the remaining items on the agenda was to remain unchanged.

#### **7. External Audit 2011/12: Audit Plan**

The Board received a report (EPB/19/12) 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 2011/12.

It was noted that the information had also been considered by the County Council's Audit Committee on 29 June 2012.

The report was **noted**.

##### **Funding**

#### **8. Local Government Pension Scheme Reform update**

The Board received a presentation from the Fund Actuary updating on the proposed reform of the Local Government Pension Scheme. Formal statutory consultation would begin in Autumn 2012. It was proposed that, from 2014, the Local Government Pension Scheme would use a Career Average Formula calculated on years of service from 2014 using a 49<sup>th</sup> accrual rate, with benefits index linked to CPI, and there would be no increase in average member contribution, although higher rate tax payers would pay more. Benefits for past service accrued prior to 2014 would continue to be calculated on the final salary basis. Pension age would mirror that for the State Pension. Projected savings for employers was expected to be 1-2% of pay on average.

The Board sought clarification on certain points of detail and the likely impact of the changes, noting that the revised scheme would remain a positive choice for employees. Members acknowledged that there would need to be a significant communications exercise with pension fund members to explain the changes.

The presentation and oral report was **noted**.

## **Governance**

### **9. Update on Pension Fund Activity**

**A 2011/12 Business Plan**

**B Risk Management**

**C Measurement against Fund Objectives (Scorecard)**

The Board considered a joint report (EPB/15/12) by the Group Manager Investments and the Pensions Services Manager, which provided an update on the 2011/12 Business Plan, risk management and scorecard recording measurement of progress against objectives.

In connection with the business plan, two of the 22 actions agreed by the Board at its meeting on 7 March 2012 were complete, with a further twelve in progress. The remaining eight actions were scheduled to commence later in the year. It was confirmed that Northern Trust had been appointed as the Global Custodian commencing 1 October 2012.

Other key developments as outlined in the report on the Business Plan and Risk Management were noted.

With regard to Annex C (Measurement against Fund Objectives), the Board gave consideration to the scorecard, seeking clarification on points of interest and explanations for areas of concern. Most measures had not changed significantly. Since the last meeting a number of changes had also been made to the scorecard and these were outlined by officers. Given the early stage of introductory training undertaken at that time the future scores for Board member training needs were expected to improve over time. The Annual Return for investments in 2011/12 was 1.5%, however the full comparator data set was not yet available for the group of statistical county neighbours and would be updated for the next Board meeting. The annual return of 1.5% outperformed the 2011/12 benchmark of 0.7% and the five year annualised return equalled the benchmark of 2.8%. However, the five year annualised average annual return on

investments was below the target long term return on investments in the Statement of Investment Principles.

An update paper was tabled clarifying specific matters highlighted during discussion of the liquidation of the East of England Tourist Board at the previous Board meeting. This paper was **noted**.

The score and status for Measure 3.4.2 (Potentially unrecoverable deficit due to employers leaving scheme) reflected the liquidation of the East of England Tourist Board. Members discussed the need for a quantifiable measurement of the risk and possible shortfall in the scorecard for the higher risk employing bodies. Officers advised the Board that this measure was being developed as part of employer risk analysis being undertaken with the Fund Actuary. This work would include identifying if a responsible body for any residual risk for an orphan liability exists.

#### **Resolved**

1. That a quantifiable measurement continue to be developed for higher risk employing bodies for the next Fund valuation with an interim progress update to be provided at the next Board meeting.
2. That the update be noted.

### **10. Pension Fund Board Training Plan**

The Board considered a report (EPB/16/12) by the Independent Governance and Administration Adviser outlining a proposed updated rolling training plan for Board members for 2012/13. Further updates would be made as conferences and external events were announced. Members were concerned that elements of the proposed plan were inflexible as some of the identified events were one-offs and already clashed with commitments in the municipal calendar. The Independent Governance and Administration Adviser assured the Board that alternative training opportunities would be developed as appropriate.

#### **Resolved**

1. That Members advise the Independent Governance and Administration Adviser of potential diary clashes;
2. To develop the training plan at an individual level focussing on specific subject modules;
3. That Members advise the Board Secretary or the Committee Officer by 20 July of their availability to attend LGPC/LGE Pension Fundamentals training in Autumn 2012

### **11. Essex Pension Fund Annual Report 2011/12**

The Board received a report (EPB/17/12) by the Secretary to the Board which presented the Board's Annual Report for 2011/12.

The report was **noted**.

## **12. Internal Audit Report of Pension Fund Work**

The Board considered a report (EPB/18/12) by the Head of Internal Audit which provided a summary of Internal Audit's 2011/12 work and proposals for 2012/13.

Both Pensions Administration and Pension Fund Investment represented major systems in terms of financial control and reporting of the Council's activities and both had received a Full Assurance audit opinion, with the former also displaying an improvement in the control environment since the previous audit. For 2012/13 the total charge to the Pension fund would be £22,500.

Biennial data matching exercises were undertaken by the National Fraud Office to identify inconsistencies or other circumstances that might suggest fraud or error. A further supplementary NFI non mandatory exercise undertaken in December 2011 to provide early identification of potential overpayments in respect of deceased pensioners had identified overpayments of £10,528 with an annual pension value of £53,148.

The outcome of the 2011/12 plan and the planned audits of the Pension Fund for 2012/13 were **noted**.

## **13. Essex Pension Fund Draft Accounts 2011/12**

The Board considered a report (EPB/20/12) by the Executive Director for Finance which provided the draft Pension Fund financial statements included within the draft County Council accounts for 2011/12 and advised of the content and timescale for production of the Pension Fund Annual Report. It was noted that the Draft Accounts had also been considered by the County Council's Audit Committee on 29 June 2012.

It was noted that the liabilities of the Pension Fund stated as the present value of promised retirement benefits in the Draft Accounts met the requirements of International Accounting Standards but did not represent the full actuarial assessment of liabilities calculated on the basis used as part of the triennial valuation of the Pension Fund. It was agreed that consideration should be given to amending the wording of this section to provide further clarity.

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

Members were encouraged to feedback any comments on the Draft Accounts to officers in good time before the Audit Committee meeting on 24 September 2012. The updated Draft Accounts to be presented to the Audit Committee in September would also be circulated to Pension Board members.

**Resolved:**

That the report be noted and consideration given to amending the relevant wording to clarify the position regarding Fund liabilities.

### **Investments**

#### **14. Investment Steering Committee (ISC) Quarterly Report**

The Board received and **noted** a report (EPB/21/12) by the Group Manager Investments which provided an update on ISC activity since the last Board meeting.

#### **15. Forward Look**

The Board received a report (EPB/22/12) by the Secretary to the Board which presented a Forward Look detailing the Board's future business.

The Fund Actuary advised that the results of the interim valuation of funding levels as at 31 March 2012 would be available for presentation at the next Board meeting.

#### **16. Date of Next Meeting**

The following had been scheduled and would begin at 2.00pm (with the exception of the Annual Strategy Day):

27 September 2012	Board meeting
14 November 2012	Annual Strategy Day
12 December 2012	Board meeting
23 January 2013	Board member training (all day)*
6 March 2013	Board meeting
*Previously afternoon only	

It was noted that Board meetings would be preceded by a Member Development session between Midday and 1.30pm.

The meeting closed at 3.25pm.

Chairman  
27 September 2012