

Essex Pension Fund Board

Minutes of a meeting of the Essex Pension Fund Board held at 2.00 pm at County Hall, Chelmsford on 25 August 2010

Membership/Attendance

Essex County Council (6)

- | | |
|--|-------------------------|
| Cllr R L Bass (Chairman) | Cllr A J Jackson |
| * Cllr Mrs T M Chapman (Deputy Chairman, in the Chair) | * Cllr M C Lager |
| * Cllr D M Finch | * Cllr T C Smith-Hughes |

District/Borough Councils in Essex (2)

- | | |
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| * Cllr J P F Archer, Maldon District Council | Cllr Mrs P A Challis, Castle Point Borough Council |
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Unitary Councils in Essex (1)

- | | |
|------------------------------------|--|
| * Cllr B Johnson, Thurrock Council | * Cllr B Kelly, Southend on Sea Council (named substitute with right to attend all meetings) |
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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)

- * Mr A Meyrick

* Present

The following were also in attendance:

Martin	Quinn	Head of Investments
Kevin	McDonald	Group Manager, Investments
Jody	Evans	Pensions Services Manager
Tim	Short	Technical Manager
Cajetan	Chukwulozie	Head of Internal Audit and Risk Management
Karen	McWilliam	Independent Governance and Administration Adviser
Paul	Middleman	Mercer
Natalie	Thoms	Audit Commission
Judith	Dignum	Governance Officer

Apologies for Absence

Apologies for absence were received on behalf of Councillors R L Bass and A J Jackson.

14. Councillor R L Bass

On behalf of the Board, Councillor D M Finch congratulated the Chairman, Councillor Rodney Bass, on his recent marriage.

In Councillor Bass's absence, the meeting was chaired by the Deputy Chairman, Councillor Mrs T M Chapman.

15. Chairman's Announcements

The Chairman referred to the following issues:

Councillor Barry Johnson

Councillor Barry Johnson was welcomed to his first meeting of the Board.

Mr Tony Meyrick

Mr Tony Meyrick (Scheme Members' representative) had submitted his resignation from membership of the Board and the Investment Steering Committee with effect from 31 August. On behalf of the Board, the Chairman thanked Mr Meyrick for his service and commitment to the Pension Fund over many years and wished him well for the future.

Councillor Michael Lager

Councillor Lager had been appointed as a full member of the Board, rather than a substitute, at the Annual Meeting of the Council on 11 May.

Mr Chris Hull

Due to a change in roles and responsibilities at Mercer, Mr Chris Hull had been succeeded as Fund Actuary by Mr Paul Middleman, who was present at the meeting and had led the earlier training session. The Chairman thanked Mr Hull for his work and formally welcomed Mr Middleman to the Board.

16. Declarations of Interest

Members declared personal interests as set out below:

Member	Nature of Interest
Councillor D M Finch	Essex County Council Cabinet Member for Finance and Transformation Programme
Councillor B Johnson	Local Authority employee and Local Government Pension Scheme member
Councillor M C Lager	Member of Braintree District Council (Cabinet Member for Efficiency and Resources) Member of Witham Town Council
All Councillors present	Members of Employing Authorities within the Essex Pension Fund.

17. Minutes**Resolved:**

That the minutes of the Essex Pension Fund Board held on 31 March 2010 be approved and signed by the Chairman as a correct record, subject to the substitution of 'M C Lager' for 'M J Lager' in minute 2 (Apologies for Absence).

18. Update on 2010/11 Business Plan

The Board considered a report (EPB/10/10) by the Head of Investments and the Pensions Services Manager which provided an update on the Essex Pension Fund 2010/11 Business Plan. In introducing the report, the Head of Investments drew the Board's attention to the progress identified against Action 7, 8 and 9 of Appendix A.

The following matters arose from consideration of the report:

- Members would be contacted shortly regarding arrangements for attending the Baillie Gifford investment seminar in October.
- It was confirmed that the costs of all work carried out by Essex County Council Internal Audit in respect of the Pension Fund were met by the Fund. At present, the only costs relating to the Fund which were borne by Essex County Council were those in respect of governance support and members' allowances, and action was planned to regularise this in future.
- With regard to Action 16, the challenges inherent in obtaining suitable information for benchmarking investment management fees were explained. The desirability of benchmarking was not in doubt and efforts would be made to progress the matter once an appointment had been made to the institutional investment consultant contract.
- Members noted that the plan to improve engagement with employers of the fund referred to in Action 26 was currently being formulated. As communications issues were linked with the independent review of Pensions Services (administration) which formed Action 20, the plan would be finalised once the review had been undertaken, towards the end of the current financial year.

Resolved:

That the latest position with regard to progress on the Essex Pension Fund 2010/11 Business Plan be noted.

19. Triennial Valuation

The Board received a presentation from the Fund Actuary, Paul Middleman, concerning the preliminary results of the Actuarial Valuation. This followed on from the training session which had taken place prior to the meeting.

The presentation detailed the financial and demographic assumptions that had been made in undertaking the valuation and recalled the results of the previous valuation, undertaken as at 31 March 2007, for comparison with the current position. A total average contribution rate of 22.8% was proposed, with the aim of providing stability for scheme employers. The progress of the Fund's deficit since the 2007 valuation was shown, together with the effect of varying deficit recovery periods on deficit contribution rates. Finally, the effect on the valuation of any variation in the financial and demographic assumptions referred to above was illustrated.

Mr Middleman provided the following information in response to Members' questions:

- In order to enable the Fund to keep pace with its liabilities, the investment return assumptions were 6.4% over three years and 6 – 6.5% over 20 years. An improved level of investment performance over the three years up to the valuation date was desirable but could not be guaranteed under the investment strategy, which had a level of risk, and certainly not in the short term given the current climate of uncertainty.
- The need to achieve stability of contribution rates in the current financial climate had made an increase in the deficit recovery period essential for the major employers. Typically, rates would have to increase were the period to remain unchanged although there would be variance at an employer level. The view was expressed that any request from employers to reduce contribution rates should be limited unless there was a very good reason as this would mean a higher likelihood of rate increases at the next valuation. The FSS had been designed in such a way to achieve this stability within reasonable parameters by introducing a 'standard' recovery period of 20 years and a maximum recovery period.
- The term 'interest', when used in the context of illustrating the effects of extending the deficit recovery period, in reality referred to the loss of investment return expected on the Fund's assets.

The Chairman thanked Mr Middleman for his interesting and informative presentation.

20. Funding Strategy Statement

The Board received a joint report (EPB/10/10) by the Head of Investments which reviewed the existing Essex Pension Fund Funding Strategy, approved in 2008, and made proposals for a revised Funding Strategy Statement and consultation process. In introducing the report, the Head of Investments highlighted the most significant of the proposed changes compared with the current Statement.

The following matter arose from Members' consideration of the report:

- It was clarified that employees of schools that opted to become academies remained as members of the Scheme
- It was explained that the process for agreeing contribution rates, including deficit recovery periods, varied between Scheme employers and was a matter for them to determine. Pension Fund officers liaised closely with

employers' directors of finance and would normally expect that the post-holder would make a recommendation feeding into the organisation's particular political structure. In Essex County Council authority to take the final decision was delegated to the Cabinet Member for Finance and Transformation Programme. If an employer failed to reach a decision on deficit recovery periods, a default period of 20 years would be applied. Concern was expressed that Scheme employers needed to understand fully the significance of such decisions and the potential for conflict, particularly in the current economic climate and in the light of potential media challenge. It was considered that employers' respective schemes of delegation needed to state with absolute clarity with whom responsibility for taking the final decision lay.

- The consultation letter would be despatched in the near future, in time to allow discussion by employers at the Employers' Forum scheduled for 14 September. Responses would be reported to the next meeting of the Board on 15 December 2010, providing Members with a further opportunity for comment.

Resolved:

1. That the draft Funding Strategy Statement attached as Annex E to the report be approved for consultation.
2. That the proposed consultation process set out in the report be approved.
3. That the draft consultation letter and the proposed list of those to be consulted, attached respectively as Annexes F and D to the report, be approved.

21. Essex Pension Fund Report and Accounts

The Board considered a report (EPB/11/10) by the Director for Finance which provided the financial statements included within the draft Pension Fund Accounts 2009/10 and advised Members of the content and timescale for production of the Pension Fund Annual Report publication. The Board noted that the draft Pension Fund Accounts had been considered and approved by the Audit Committee on 28 June.

In order to allow publication of the Pension Fund Annual Report within the statutory deadline of 1 December, the Board delegated authority to the Chairman, Councillor R L Bass, to approve the final draft. A copy of the finalised report would subsequently be circulated to all Members of the Board.

Resolved:

1. That the report be noted.
2. That authority to approve the final draft of the Pension Fund Annual Report be delegated to the Chairman, Councillor R L Bass, with copies to be sent to all Members of the Board.

22. Investment Steering Committee (ISC) Quarterly Report

The Board received a report (EPB/12/10) by the Head of Investments which provided an update on ISC activity since the last Board meeting. There had been two meetings of the ISC during that period, on 1 April and 10 June 2010. Members noted that the Appointments Sub-Committee was due to meet on 21 September to interview candidates for the institutional investment consultant contract.

Resolved:

That the report be noted.

23. Employer Forum 14 September 2010

The Board received a report (EPB/13/10) by the Group Manager Investments which detailed the arrangements for the Essex Pension Fund Employer Forum due to take place on 14 September 2010.

The Chairman encouraged all members to attend the Forum.

24. Internal Audit Annual Report of Pension Fund Work

The Board considered a report (EPB/14/10) by the Head of Internal Audit and Risk Management which provided a summary of Internal Audit's 2009/10 work and proposals for 2010/11 in respect of the Pension Fund and Pensions Administration. Members were invited to suggest any areas of work that they would like be reviewed.

Members were pleased to note the positive nature of the report, indicating that the Fund was well-managed and administered, with strong controls in place

Resolved:

That the outcome of the planned audits undertaken in 2009/10 be noted, together with the planned audits of the Pension Fund proposed for 2010/11.

25. External Audit Opinion Plan 2009/10

The Board received a report (EPB/15/10) by the External Auditor which outlined the programme of external audit work and fees in relation to the audit of the financial statements for 2009/10 in respect of the Essex Pension Fund.

In considering the report Members took note of written comments submitted by Councillor A J Jackson, who was unable to attend the meeting. Councillor Jackson expressed concern at the level of audit fees and referred to the possibility of tendering for external audit work. In the light of the recent announcement concerning the future abolition of the Audit Commission (to take effect following the conclusion of the 2011/12 audit), and the commitment to a review of external supplier procurement included in the Business Plan (Action 11), the Board was satisfied that the points raised by Councillor Jackson would be taken into account.

The report was noted.

26. Forward Look

The Board received a report (EPB/16/10) by the Governance Officer which presented a Forward Look detailing the Board's future business.

Proposed changes to the membership of police authorities were noted and it was agreed that, if appropriate, these would be taken into account in the review of Board membership scheduled for March 2011.

27. Date of Next Meeting

Members noted that the next meeting of the Board would be held on Wednesday 15 December 2010 at 2.00pm.

(NB a training session, to include basic information on pensions, will be held on the same morning at 11.00am. This is aimed at those who were not able to make the training on 31 March 2010 or who have since become members of the PFB, however those who require a refresher are, of course, welcome)

The meeting closed at 3.30pm.

Chairman
15 December 2010