

## **DURHAM COUNTY COUNCIL**

### **PENSION FUND COMMITTEE**

At a Meeting of **Pension Fund Committee** held in Committee Room 2, County Hall, Durham on **Thursday 4 June 2015 at 10.00 am**

#### **Present:**

**Councillor A Turner (Chairman)**

#### **Members of the Committee:**

Councillors J Alvey, C Carr, M Davinson, J Lethbridge, J Shuttleworth and H Smith

#### **Pensioner Representative**

D Ford

#### **Also Present:**

##### **County Council Advisers**

D McLure – Corporate Director, Resources

H Appleton – Strategic Finance Manager – Corporate Finance

N Orton – Team Leader Operations and Data/Pensions

##### **Independent Advisers**

P Williams – P J Williams

R Bowker – P-Solve

D Banks – P-Solve

Prior to the commencement of business a minute silence was held as a mark of respect for Councillor Robin Todd who had sadly died recently.

#### **1 Apologies for Absence**

Apologies for absence were received from Councillors Ian Geldard and Nigel Martin, and admitted bodies representative John Norton.

#### **2 Declarations of interest**

There were no declarations of interest.

#### **3 Minutes**

The Minutes of the meeting held on 4 March 2015 were agreed as a correct record and were signed by the Chairman.

#### **4 Graphs showing recent movements of the Stock and Share Indices**

Consideration was given to graphs showing recent movements in the Stock and Share Indices (for copy see file of Minutes).

Philip Williams, Pension Fund Adviser informed the Committee that in the 12 months to 31 March 2015 bond yields had declined steeply around the world which meant that prices were going up. This would influence the discount rate of liabilities. Assets were performing satisfactorily as equity markets performed well. Equity markets were driven by the monetary policies of Central Banks. The latest estimate was for a decline in the current year which was influenced substantially by oil and gas companies and falling energy prices.

Since 31 March 2015 bond markets had been very volatile and yields had risen.

**Resolved:**

That the information given be noted.

#### **5 Graphs showing recent movements of the major currencies against sterling**

Consideration was given to graphs showing recent movements of the major currencies against sterling (for copy see file of Minutes).

**Resolved:**

That the information given be noted.

#### **6 Performance Measurement of Pension Fund Investments to 31 March 2015**

Consideration was given to the report of the Corporate Director, Resources which gave an overview of the performance of the Fund to 31 March 2015 (for copy see file of Minutes).

The report gave details of the Managers' performance against their benchmarks for the quarter, the year to date and since inception of the Fund.

**Resolved:**

That the information contained in the report produced by J P Morgan be noted.

#### **7 Overall Value of Pension Fund Investments to 31 March 2015**

Consideration was given to the report of the Corporate Director, Resources which informed Members of the overall value of the Pension Fund as at 31 March 2015, and of any additional sums available to the Managers for further investment or amounts to be withdrawn from Managers (for copy see file of Minutes).

Councillor Carr noted that dividend income receivable in 2015/2016 was estimated to be £31m but was concerned that employee contributions may decline. Don McLure, Corporate Director, Resources stated that the assumptions were based on the actuarial valuation of 2013 and had been taken into account in the forecasts at that time. The next actuarial valuation was due in March 2016.

Nick Orton, Team Leader Operations and Data/Pensions clarified that dividend income related to income from Assets and contribution income from scheme membership would be expected to decline if employee numbers reduced. However the Council contributed £22m over and above its membership contribution which would safeguard the position.

By way of information Don McLure advised that the Council had agreed to introduce auto-enrolment whereby employees were automatically enrolled in the scheme but could opt out. This reversed the current arrangements where employees decided whether or not to participate in the scheme at the outset. The implementation of auto-enrolment had been delayed until 2017 but evidence in other areas had shown that a significant number of employees who had been auto-enrolled had not opted out.

Pension Funds across the country would be subject to the same constraints and Philip Williams advised that generally public sector schemes were in a better position than private sector schemes because of their long-term focus. Members could be assured that Durham's scheme was in an above average position in terms of its solvency.

Councillor Davinson referred to Government consultation on the future structure of Local Government Pension Schemes which included proposals to merge Pension Funds. Nick Orton informed the Committee of the outcome of the consultation which had determined that Pension Fund mergers should not be pursued and the focus was now on pooled investment vehicles. Consultation was ongoing in relation to this and the final conclusions were awaited.

**Resolved:**

That the information contained in the report be noted.

**8 Short Term Investments for the Period Ended 31 March 2015**

Consideration was given to the report of the Corporate Director, Resources which provided information on the performance of the Pension Fund's short term investments as at 31 March 2015 (for copy see file of Minutes).

Councillor Shuttleworth referred to net interest earned on investments and asked if the rates were likely to increase in the short-term. The Member was advised by Hilary Appleton that this was unlikely. For information Don McLure stated that the Bank of England rate had been fixed at 0.5% for 6 years and the view was that it would remain at this level for at least a further 12 months. As markets were now more buoyant, in line with the Treasury Management Strategy, consideration had

been given to extending sound investments beyond 12 months where marginally better rates were secured.

**Resolved:**

That the position at 31 March 2015 regarding the Pension Fund's short term investments where £60,268 net interest was earned in the three month period, be noted.

**9 Pension Fund Policy Documents - Funding Strategy Statement (FSS) and Statement of Investment Principles (SIP)**

Consideration was given to the report of the Corporate Director, Resources which informed Members of the review of the FSS and SIP and sought approval to circulate the documents to all relevant parties to consult on their contents (for copy see file of Minutes).

**Resolved:**

That the contents of the revised FSS and SIP policy documents be approved and circulated to all relevant interested parties to consult on their contents.

In order to keep Members informed the Chairman agreed that consideration be given to the following item of business.

**10 Audit Strategy Memorandum - Durham County Council Pension Fund**

Consideration was given to the Audit Strategy Memorandum provided by Mazars LLP for Durham County Council Pension Fund for the year ended 31 March 2015 (for copy see file of Minutes).

Catherine Banks, Engagement Senior Manager of Mazars informed Members that the purpose of the document was to summarise their audit approach and highlight any significant audit risks.

The following risks had been identified and were set out in Section 3 of the report together with details of how these would be addressed:-

- Management override of controls
- Valuation of unquoted investments for which a market price was not readily available
- Disclosure of Funding Arrangements

Members were advised of a further two risks identified since the circulation of the memorandum; a new version of Oracle which had been tested with nothing further to report, and the transition of investments between Fund Managers which would be completed this month.

In conclusion she advised of future changes to accounting deadlines which would bring local authorities in line with central Government timescales.

**Resolved:**

That the Audit Strategy Memorandum for Durham County Council Pension Fund for the year ended 31 March 2015 be received.