

DURHAM COUNTY COUNCIL

PENSION FUND COMMITTEE

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

Present:

Councillor A Turner (Chairman)

Members of the Committee:

Councillors C Carr, M Davinson, S Forster, I Geldard, N Martin, G Richardson and R Todd

Admitted Bodies Representative

John Norton

Pensioner Representative

David Ford

Also Present:

County Council Advisers

D McLure – Corporate Director, Resources

H Appleton – Strategic Finance Manager – Corporate Finance

N Orton – Team Leader Operations and Pensions/Data

Independent Advisers

P Williams – P J Williams

R Bowker – P-Solve

J Wall – P-Solve

Staff Observer

N Hancock - UNISON

1 Apologies for Absence

An apology for absence was received from Councillor P Conway.

2 Minutes

The Minutes of the meeting held on 10 December 2014 were agreed as a correct record subject to minute numbered 2 being amended to read as follows:-

'Minutes

The Minutes of the meeting held on 11 September 2014 were agreed as a correct record and were signed by the Chairman'.

3 Declarations of interest

There were no declarations of interest.

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 Government Bond Yields had been falling for some time and had fallen more steeply from mid-September 2014. As could be seen from the graphs 10 year UST and 10 year UK Gilt had tracked each other closely but UK gilt yields had now fallen more steeply than US yields.

10 year index linked and 30 year index linked yields were being driven by pension funds feeling obliged to 'de-risk at any price'.

Robbie Bowker, P-Solve added that Pension Schemes and private sector schemes in particular were under pressure to de-risk, however before taking a decision they should to take into account their own individual circumstances, for example the strength of the employer's position.

James Wall, P-Solve stated that the European Central Bank's QE programme was pushing up Government Bond Yields.

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).

Philip Williams stated that sterling was strong against the euro and the yen, but the dollar was stronger than sterling at present.

In response to a question from Councillor Carr about a possible change in the position of the sterling against the euro in Europe, Philip Williams advised that this was linked to concern in the Eurozone that economies would suffer deflation associated with depressed economies.

Resolved:

That the information given be noted.

6 Performance Measurement of Pension Fund Investments to 31 December 2014

Consideration was given to the report of the Corporate Director, Resources which gave an overview of the performance of the Fund to 31 December 2014 (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.

Councillor Martin noted the reference in the report to Edinburgh Partners who were no longer a Fund Manager. The Member was advised that the information reflected a 3 year period and dividend income was still being received in respect of Edinburgh Partner's mandate.

Resolved:

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

7 Overall Value of Pension Fund Investments to 31 December 2014

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 December 2014 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).

In response to a question from Councillor Carr, Hilary Appleton, Strategic Finance Manager – Corporate Finance advised that the cash flow figures in respect of payroll reflected payments to all pensioners in the scheme.

Following a query from Councillor Davinson regarding 'Transfer Values in' Nick Orton, Team leader Operations and Pensions/Data explained that if an organisation was TUPE transferred then the new body would normally participate in the Pension Fund Scheme. In other cases participation in the Scheme would depend upon the terms of admission for that organisation.

Don McLure, Corporate Director, Resources advised that County Durham Housing Group was an example of an 'open scheme' and new employees would be entitled to join the Fund.

Resolved:

That the information given be noted.

8 Short Term Investments for the Period Ended 31 December 2014

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 December 2014 (for copy see file of Minutes).

In response to a comment from Councillor Martin the Committee was advised that £31,293 represented the total interest earned and not the net interest as stated in the report.

John Norton asked why the investments had returned less than the base rate of 0.5%. Philip Williams explained that 0.5% was the rate issued by the Bank of England but banks would offer a lower base rate than this. The interest rate was based on the 3 month LIBID rate which was currently 0.43%. Don McLure added that because this was a fluid position investments were for short term periods, and a maximum of 12 weeks.

Resolved:

That the position at 31 December 2014 regarding the Fund's short term investments where £31,293 total 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 for the year ended 31 March 2015 (for copy see file of Minutes).

Hilary Appleton reported that the SIP reflected the appointment of a new Investment Manager for the Dynamic Asset Allocation part of the Fund.

The FSS document was currently being updated and would be reported to the next meeting of the Committee before going out to consultation.

Resolved:

That

- i) the contents of the revised SIP be approved;
- ii) consultation be delayed until the FSS was fully updated.

10 Agreement of Accounting Policies for Application in the 2014/2015 Financial Statements of the Pension Fund

Consideration was given to the report of the Corporate Director, Resources which informed Members of the accounting policies to be applied in the preparation of the 2014/2015 Final Accounts and sought confirmation from the Committee that appropriate policies were being applied (for copy see file of Minutes).

Hilary Appleton informed Members that the proposed accounting policies were in line with those used in the preparation of the 2013/2014 accounts and there had been no changes to the Code which would necessitate a change for 2014/2015. It may be necessary to amend policies during the audit of accounts and authority was sought for the Corporate Director, Resources to revise the policies as necessary.

The Committee having reviewed the accounting policies **Resolved:**

That

- i) the policies be used in the preparation of the 2014/2015 financial statements for the Pension Fund;
- ii) the Corporate Director, Resources be authorised to revise the accounting policies as necessary and report any significant changes to the Committee.

11 The Requirement to set up a Local Pension Board

Consideration was given to the report of the Corporate Director, Resources which informed Members of the need to establish a Local Pension Board (the Board) and sought approval of the Terms of Reference for the Board (for copy see file of Minutes).

Nick Orton advised that the County Council had approved establishment of the Board at its meeting on 25 February 2015.

Membership would comprise of 3 scheme member representatives and 3 employer representatives, and the next stage was the selection process. Each Member would serve a 4 year term, retiring on a rolling basis to ensure continuity. The Board would appoint its own Chair and set up its own work schedule.

Members would not receive an allowance but would be reimbursed expenses.

Neville Hancock, UNISON considered that membership of the Board should consist of equal numbers of trade union representatives and employer representatives. Trade Unions had the capacity to represent members and he also considered that appointments should be made by ballot.

Nick Orton advised that the selection process had not been agreed but must be open and transparent. The recruitment of members was delegated to the Corporate Director, Resources in consultation with the members of the Pension Fund

Committee. The Chairman of the Committee and Councillors Martin and Carr volunteered to be involved in the recruitment process.

Councillor Martin stated that the role of the Board was to hold the Pension Fund Committee to account and appointments should be made based on a candidate's knowledge, understanding and experience.

David Ford noted that the Board would rely on the scrutiny of papers and decisions to hold the Committee to account and questioned the effectiveness of this. He also noted the comments made about recruitment and make-up of the Board and was of the view that it may be difficult to fill the positions.

Resolved:

That

- i) the contents of the County Council report establishing the Local Pension Board be noted;
- ii) the Terms of Reference for the Local Pension Board be approved.

12 Terms of Reference - Annual Review

Consideration was given to the report of the Corporate Director, Resources which reviewed the Terms of Reference for the Pension Fund Committee (for copy see file of Minutes).

Hilary Appleton reported of an additional Term of Reference which related to agreeing the establishment of constitutional documents, codes, policies, plans, frameworks and protocols for the Local Pension Board.

Resolved:

That the Terms of Reference as detailed in Appendix 1 of the report be accepted and reviewed at least on an annual basis.

13 Investment of the Pension Fund's Cash Balances

Consideration was given to the report of the Corporate Director, Resources which gave an update to Members of the Treasury Management Service provided to the Pension Fund, and reviewed the charges for the services and the calculation of interest on short term investments administered by the County Council for 2015/2016 (for copy see file of Minutes).

Hilary Appleton advised that during the year banking arrangements would transfer from the Co-operative Bank to Lloyds Bank. The transition process was being carefully managed but Members would be informed of any changes which impacted on the service being delivered.

Resolved:

That

- a) the Pension Fund continue to invest cash balances with the Council in line with the Council's Treasury Management Strategy;
- b) interest be paid quarterly to the Pension Fund at a rate based on the daily cash balance and the 3 month LIBID interest rate;
- c) an administration fee of £2500 per quarter be paid to the Council for the Treasury Management function being carried out on behalf of the Pension Fund; and
- d) in the event of the loss of an investment, the Pension Fund bears the loss in proportion of the value of cash balances held at the time of the investment with Durham County Council.