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GENERAL PURPOSES AND LICENSING COMMITTEE

Meeting to be held on Wednesday 16 February 2011

Copies of the documents referred to below can be obtained from
www.bromley.gov.uk/meetings

The Chairman to agree that the following minutes of the Pensions Investment Sub-Committee meeting on 10th February 2011 be considered as a matter of urgency so that the Committee's recommendation in minute 35/1 can be referred to Council on 28th February 2011.

16 PENSIONS INVESTMENT SUB-COMMITTEE: MINUTES OF THE MEETING HELD ON 10TH FEBRUARY 2011, EXCLUDING EXEMPT INFORMATION
(Pages 3 - 8)

18 LOCAL GOVERNMENT ACT 1972 AS AMENDED BY THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) (VARIATION) ORDER 2006 AND THE FREEDOM OF INFORMATION ACT 2000

The Chairman to move that the Press and public be excluded during consideration of the item of business listed below as it is likely in view of the nature of the business to be transacted or the nature of the proceedings that if members of the Press and public were present there would be disclosure to them of exempt information.

21 PENSIONS INVESTMENT SUB-COMMITTEE: EXEMPT MINUTES OF THE MEETING HELD ON 10TH FEBRUARY 2011 (Pages 9 - 36)

The Committee is requested to forward the recommendation in minute 35/1 to Council on 28th February 2011.

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PENSIONS INVESTMENT SUB-COMMITTEE

Minutes of the meeting held at 7.30 pm on 10 February 2011

Present:

Councillor Nicholas Bennett J.P. (Chairman)
Councillor Paul Lynch (Vice-Chairman)
Councillors Russell Mellor, Richard Scoates and
Stephen Wells

Also Present:

Glenn Kelly, Staff Side Representative

25 APOLOGIES FOR ABSENCE AND NOTIFICATION OF ALTERNATE MEMBERS

Apologies were received from Councillors Eric Bosshard, Julian Grainger and Russell Jackson. Councillor Richard Scoates attended as alternate for Councillor Julian Grainger.

26 DECLARATIONS OF INTEREST

All Members present along with Mr Glenn Kelly declared a personal interest as Members of the Bromley Local Government Pension Scheme. Councillor Stephen Wells also declared a personal interest at item 12 of the agenda as an employee of Shell Oil. The Chairman also enquired at item 12 whether there was any level of company ownership above which it was necessary to make a declaration and it was agreed to confirm the position.

27 CONFIRMATION OF MINUTES OF THE MEETING HELD ON 11th NOVEMBER 2010, EXCLUDING THOSE CONTAINING EXEMPT INFORMATION

The minutes were agreed.

28 MATTERS OUTSTANDING FROM PREVIOUS MEETINGS

A report on the matter outstanding - investment in property – would be provided to the Sub Committee's meeting after 1st April 2011.

29 QUESTIONS BY MEMBERS OF THE PUBLIC ATTENDING THE MEETING

There were no questions.

30 PENSION FUND PERFORMANCE

Report DR11001

Members were apprised of the investment performance of Bromley's Pension Fund for the first three quarters of the 2010/11 financial year. Information was also provided on general financial and membership trends of the Pension Fund along with summarised information on early retirements.

For 2009/10 the quarterly and cumulative performance of the Council's two fund managers showed that Baillie Gifford was 6.3% above their benchmark for the year, while Fidelity were 4.4% above benchmark. An overall ranking of 2% was achieved in the year and medium and long-term returns had been extremely good. Bromley's Fund had been ranked in the second percentile over the last three years, in the first percentile over five years and in the fifth percentile over ten years. In 2010/11 to date, Bromley's Fund has achieved rankings of 94% in the June quarter and 6% in the September quarter.

A summary of the performance of the two fund managers for the first three quarters of 2010/11 was provided with further detail at Appendices 1 to 3 of report DR11001.

Baillie Gifford returned 7.5% in the December quarter (1.3% above benchmark) and achieved a cumulative return of 9.3% in the period 1st April 2010 to 31st December 2010 (2.8% above their benchmark). In the latest quarter, the WM Company attributed their relative outperformance to a combination of asset allocation (0.5%) and stock selection (0.7%). The main positive contributions from asset allocation and stock selection were from UK bonds and from European and UK equities respectively.

Fidelity returned 6.3% in the December quarter (0.2% above benchmark) and achieved a cumulative return of 5.9% in the first half year (0.4% below their benchmark). In the latest quarter, the WM Company attributed their relative outperformance to asset allocation (-0.3%) and stock selection (+0.4%). The negative asset allocation impact was mainly in UK Bonds, while the main stock selection impacts were seen in North American and Global equities.

Concerning medium and long-term performance data, comparative returns over one, three, five and ten years were shown for both Baillie Gifford and Fidelity for periods ended 31st December 2010 and 31st March 2010. Baillie Gifford's one, five and ten year returns to December 2010 (19.2%, 8.1% and 6.5% respectively) were better than those of Fidelity (14.6%, 7.5% and 5.7% respectively), although Fidelity's three year return (6.7%) was marginally better than that of Baillie Gifford (6.6%). Performance since the revised

benchmarks were adopted in 2006 had been particularly strong. More detailed performance was also shown relative to benchmark in the medium and long term for the whole fund and for Baillie Gifford and Fidelity individually.

In discussion Members made a number of comments. Concerning the Pension Fund Revenue Account and Membership, the Chairman enquired about administration costs. The Director referred to Fidelity having a performance related fee structure and although capping was being looked at the fee did correspond to the return on the fund. The Chairman asked for a report on funding administration costs at the Sub Committee's next meeting. The Director explained that Fidelity had been set a tough performance level and the Group Accountant provided a breakdown of the 2009/10 administration outturn explaining that the base fees for Baillie Gifford and Fidelity were about £350k to £400k per annum each. It was only in the last two years that Fidelity's performance related fee had been triggered and of the £2,928k administration outturn for 2009/10, £2,185k related to fees. The Group Accountant also indicated that the outturn included the costs of support services such as Liberata's costs.

Councillor Wells explained that he could understand the performance element of the administration costs against a challenging benchmark which had been outperformed in a difficult market but expressed concern for Liberata's costs. The Director indicated that Bromley's administration costs were at the lower end compared with a number of authorities.

It was also indicated that a 7.1% return per annum had been achieved over the previous three years and that a high performance fee should be seen in this context. It was desirable to reduce the fee but the return on investments was key. The Group Accountant reported that as of 9th February 2011 the Pension Fund value stood at £483m and the ranking of Bromley's Fund in the December quarter was 12th in the Local Authority universe. This meant that the Fund was ranked in the 4th percentile in the year to 31st December 2010 and in the 2nd percentile over three years.

Referring to school pensions, Councillor Scoates highlighted that the deficit recovery period for primary schools considering a change to academy status appeared to be lower than the current nine years for the LBB fund. In response the Director referred to the deficit changing for such schools from 1st April 2011 when they would have a contract with the Secretary of State for Education over seven years. In running their businesses, such academy schools were in effect commercial companies. It was logical to protect their pension funds at the moment as there was no asset as yet to back the funds. The schools would take a deficit of up to £250k with them to academy status.

Councillor Scoates understood that Liberata had proposed a fee of £1500 to calculate the pension liabilities of support staff at each primary school considering academy status and indicated that this seemed excessive for a small school with a limited number of support staff. The Director explained that the same amount of work was involved for small schools and that the cost of actuaries was not cheap. The Staff Side Representative enquired whether

there should be a merger of funds and the Director indicated that costs would soar with such an approach. Nevertheless, the Director referred to finding ways of joint working and explained that a lot of administration was being outsourced so reducing costs - the pressure to merge had reduced.

RESOLVED that the report be noted.

31 WORK OF THE SUB-COMMITTEE

Report DR11010

The role of the Sub-Committee was reviewed for the benefit of new Members and information was provided on:

- the Sub-Committee's terms of reference (including a brief description of how its functions are exercised and some general background);
- financial and membership information about the fund;
- the fund's Governance Policy Statement;
- the fund's Statement of Investment Principles setting out the framework within which investments of the fund are managed; and
- the fund's Funding Strategy Statement.

RESOLVED that the report be noted.

32 LOCAL GOVERNMENT ACT 1972 AS AMENDED BY THE LOCAL GOVERNMENT (ACCESS TO INFORMATION) (VARIATION) ORDER 2006 AND FREEDOM OF INFORMATION ACT 2000

33 CONFIRMATION OF EXEMPT MINUTES - 11TH NOVEMBER 2010

The Part 2 minutes were agreed.

34 PENSION FUND ACTUARIAL VALUATION 2010

A presentation was provided by a representative from Barnett Waddingham on the 2010 valuation of the Bromley Pension Fund.

35 PENSION FUND VALUATION AND RESULTING DEFICIT ISSUES

Report DR11011

In the light of difficult budgetary circumstances Members considered a report outlining options – including a recommended option - for reducing the deficit associated with the Pension Fund.

RESOLVED that the report be noted and Council be recommended to agree that the pension deficit be recovered over 12 years.

36 PENSION FUND - INVESTMENT REPORT

Quarterly performance reports (to December 2010) from Fidelity and Baillie Gifford had been circulated prior to the meeting and two representatives from Fidelity attended the meeting to present the Fidelity review and answer questions from Members.

Thanks to the Director of Resources

In concluding the meeting the Chairman announced that the Director of Resources would be retiring at the end of the financial year. The Chairman wished to place on record his appreciation and the appreciation of the Sub Committee to the contribution made by the Director to the Sub Committee's work over the past ten years and more widely to the Director's contribution to the Council's work as a whole during this time.

The Meeting ended at 9.45 pm

Chairman

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Agenda Item 21

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