Pension Fund Investment Board

30 July 2012

Agenda

The Pension Fund Investment Board will meet at **Shire Hall, Warwick** on **30 July 2012** at **9:30am**

1. General

(1) Apologies

(2) Members' Disclosures of Pecuniary and Non-Pecuniary Interests.

Members are required to register their disclosable pecuniary interests within 28 days of their election of appointment to the Council. A member attending a meeting where a matter arises in which s/he has a disclosable pecuniary interest must (unless s/he has a dispensation):

- Declare the interest if s/he has not already registered it
- Not participate in any discussion or vote
- Must leave the meeting room until the matter has been dealt with (Standing Order 42).
- Give written notice of any unregistered interest to the Monitoring Officer within 28 days of the meeting

Non-pecuniary interests must still be declared in accordance with the new Code of Conduct. These should be declared at the commencement of the meeting.

(3) Minutes of the previous meeting and matters arising

2. Presentation from Manifest – The Proxy Voting Agency (10.00am)

3. Presentation from Schroders Property (11.00am)

4. Investment Performance*

This report gives the fund value and investment performance for the first quarter in 2012/12 to June 2012.

***Report to follow – this item will be published on Monday 23 July**

5. Projection of Future Cash Flow

This report gives projections of the future cash flow of the pension fund.

6. LIBOR Investigation
This is an advisory report about the manipulation of the London Interbank Offered Rate (LIBOR).

7. Local Government Pension Scheme 2014
This report covers the main features of the proposed changes to the Local Government Pension Scheme.

8. Academies Update
This report provides Information about maintained schools converting to academy status.

9. North Warwickshire Home Carers Pension Provision
This report is about the transfer of 35 members of the LGPS to Home Group Limited.

10. Warwick Schools Catering Contract (Class Catering Ltd)
This report is about the admission of Class Catering Limited to the Warwickshire Pension Fund.

11. WCC Direct Payment Services: Penderels Trust
This report is about the admission of Penderels Trust to the Warwickshire Pension Fund in respect of the Direct Payment Services contract.

12. Any Other Items
Which the Chair decides are urgent.

JIM GRAHAM
Chief Executive
Shire Hall
Warwick

Membership of the Pension Fund in Investment Board
Councillors John Appleton, Chris Davis (Chair), Jim Foster, Brian Moss, and David Wright

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Minutes of the Pension Fund Investment Board held on 21 May 2012

Present:
Members
Councillors John Appleton, Chris Davis, Jim Foster, and Brian Moss

Officers
Dave Abbott, Democratic Services Officer
John Betts, Head of Corporate Finance
Neil Buxton, Pensions Services Manager
John Galbraith, Senior Solicitor, Employment Team
Andrew Lovegrove, Group Accountant
Phil Triggs, Treasury and Pensions Group Manager

Invitees
Peter Jones, Independent Adviser
John Wright, Adviser, Hymans Robertson

No members of the public attended the meeting.

1. General

(1) Election of the Chair and Vice Chair

Councillor Brian Moss, seconded by Councillor John Appleton, proposed and it was unanimously resolved that Councillor Chris Davis take the position of Chair of the Pension Fund Investment Board.

Councillor Jim Foster, seconded by Councillor Brian Moss, proposed and it was unanimously resolved that Councillor John Appleton take the position of Vice Chair of the Pension Fund Investment Board.

(2) Apologies

None.

(3) Members' Declarations of Personal and Prejudicial Interests

Councillors Chris Davis and John Appleton both declared personal interests as members of the Local Government Pension Scheme.

Councillor Jim Foster declared a personal interest in relation to Item 3 as Governor of a sixth form college in Nuneaton.

(4) Minutes of the previous meeting and matters

<u>Collection of overseas dividends</u>
Phil Triggs informed the Board that this issue only affects only the NFS global equities portfolio and assured members that although the process can take time, any income is accrued.

<u>Investments</u>
Councillor John Appleton requested a statement of income earned by each of the Warwickshire Pension Fund's investments so the Board can judge how well each of the fund managers are performing.
Phil Triggs said he would action this request.

The minutes were agreed as a true record and were signed by the Chair.

2. Investment Performance

Phil Triggs presented the report and the following points were noted:

- The fund value at the time of the report was just over £1.2bn.
- Overall, the fund had out-performed the benchmark by 0.58% and there was out-performance in eight asset classes.
- During the quarter, MFS, State Street, Threadneedle (UK Equities) and Legal and General (Global Equities), Legal and General (Fixed Interest), and Blackstone out-performed their benchmarks.

Peter Jones, referring to Table 5 in the report, thought that the property performance was giving cause for concern and should be monitored more closely. Property is due for review this year.

Resolved

That the Board note the fund value and investment performance for the fourth quarter in 2011/12 to 31 March 2012.

3. Academies and the LGPS

Neil Buxton presented the report and the following points were noted:

- Warwickshire currently has 20 Academies
- The average contribution rate is 17.4%
- 966 individual members have been transferred over and more will follow in September.
- Some schools have dropped out from Academy status – partly because of concerns about pension issues.
- The Secretary of State issued further guidance about pooling that was received the morning of the Board meeting – in short; funds can choose whether to pool or not. A detailed report on the guidance will be presented at next meeting.

John Betts advised the Board that this is a fast moving area and members need to be clear about their roles as trustees of the pension fund. Warwickshire County Council shouldn’t be seen as cross-subsidising Academy schools.

Resolved

That the Board note the update concerning academies in the Warwickshire Pension Fund.

4. Business Plan Outcome 2011/12

The report was presented by Phil Triggs and the following points were noted:

Administration

Councillors asked for clarity on the roles of the Pension Fund Investment Board and the Staff and Pensions Board with regards to administration issues.

Councillor John Appleton noted that he had received two P60s, one for pensions and one for salary, but both identical - there was no mention of 'pensions' anywhere on the document.
Neil Buxton agreed to talk to the payroll team to resolve the issue.

Councillors commented that hard copies of papers often arrive very close to the meeting dates. Officers said this would be resolved.

The Chair congratulated Phil Triggs and the Treasury and Pensions team for being short-listed for fund of the year.

Communication
Information on the Hutton reforms is expected this week. The communications team is ready with press releases and information to go out as soon as announcements are made.

Decision making process
Members felt they had enough knowledge, through training and expert advice from Hymans Robertson and Peter Jones, to take the important decisions required of them.

It was felt that the Consultative Board structure wasn't very effective – District and Borough members rarely turned up to meetings. There are also training issues – co-opted members often aren't given the appropriate level of training.

Myners report
Phil Triggs agreed to arrange for Manifest to attend the next meeting to talk about how they look after the pension fund's voting interests.

UN principles for responsible investment
There had been a report on this issue in previous years. Phil Triggs agreed to circulate the report to members after the meeting.

Financial and Risk Management
Councillor John Appleton said that risk management needed to be more of a focus.
Councillors also had concerns about demographic risks and the difficulties in making decisions in the current financial environment.

Resolved
That the Board note the progress made with regard to the Pension Fund Business Plan objectives for 2011/12.

5. CIPFA Pension Fund Knowledge and Skills Framework

Phil Triggs presented the report and the following points were noted:

- Investment opportunities for pension funds are becoming increasingly complex and require a broad range of knowledge for informed decision making. The CIPFA framework is a tool to determine member's knowledge levels and identify areas for improvement.
- There are 2 parts to the framework – the first part is a paper based training self assessment that officers can use to identify common

areas for training. The second part is an online repository of information with areas tailored towards either members or officers.

- There are no associated timescales or targets. It is designed to be used according to individual member's needs.

Councillors welcomed the CIPFA training framework – and commented that it would be particularly useful for any new members of the Board.

Councillors asked if there was any equivalent that was cheaper or free. John Wright assured members that the costs were per fund and relatively modest.

John Wright said that Hymans Robertson could provide 1 hour training sessions before meetings.

Councillor John Appleton asked that, where possible, training was relevant to items on that meeting's agenda.

Resolved

That the Pension Fund Investment Board adopt the CIPFA Knowledge and Skills Framework to identify skills and learning requirements, with the stipulation that there is a review in 12 months time and elements of training are attached to the Board's regular meetings.

6. Clifton-on-Dunsmore Parish Council

This report notified the Board that Clifton-on-Dunsmore Parish Council has passed a resolution for the parish clerk to have access to the Local Government Pension Scheme administered by Warwickshire County Council.

Resolved

That the Pension Fund Investment Board note that Clifton-on-Dunsmore Parish Council has passed a resolution to become a scheduled body member of the Warwickshire Pension Fund.

7. Directions Order

Neil Buxton presented the report and the following points were noted:

- Usually when employees are transferred from the public sector to the private sector through outsourcing there is an element of pensions protection. However, support staff at Academy schools (catering, cleaning, finance, IT, HR etc.) are not provided with that same protection.
- If an Academy brings a service in-house, or the County Council wins the contract, then staff would be protected but otherwise, they wouldn't be.

Resolved

That the Board note that support-staff at academies are not protected with regard to LGPS membership if their service is outsourced to a private contractor.

8. Update on the Fund Manager Appointment Process

Phil Triggs presented the report and noted that Hymans Robertson have produced a list of approved managers and detailed questionnaires have been sent out to them.

De-risking

John Wright advised members that previous advice to further de-risk the fund, while being correct at the time it was given, was no longer true because the fund level has fallen. The fund should maintain weight in growth assets.

9. Future Risks Facing the Warwickshire Pension Fund

Phil Triggs presented the report and the following points were noted:

Longevity Risk

- There is a demographic risk – the number of people of pensionable age relying on the fund will increase. The use of longevity swaps is one option to mitigate this risk. The Hutton reforms have also helped considerably, with the retirement age being linked to the State Pension Age.

Fund Maturity Risk Including Opt-outs and Outsourcing

- The makeup of the fund will evolve over time as the public sector gets smaller and the Council moves towards more outsourcing of services. The number of contributors to the fund will fall.
- Over the long term it is likely that the Local Government Pension Scheme will move towards the characteristics of the private sector with regards to member age and less risky assets within fund portfolios.

Inflation Risk

- Inflation is an ongoing risk while the low interest environment persists. The Consumer Price Index has been on a reducing trend after reaching record highs at the end of 2011 / beginning of 2012. This risk can be counteracted with investment into property and index-linked bonds.
- Insurance schemes are another option but they can be very expensive.

Risk of Employers Ceasing to Exist

- To mitigate this risk a one-size-fits-all investment strategy for all employer bodies may not be appropriate in future. Short term employers could be put into a low risk fund that wouldn't be exposed to the volatility in equities, for example.

John Appleton requested to see an example of the report or questionnaire that would be submitted to employers to assess their finances.
Officers agreed to check with the contracts team and report back to the Board.

Councillor John Appleton also asked why, in reference to the Legal and General report, the actual value of gilts and bonds was so far ahead of the benchmark.
Phil Triggs agreed to check and report back to the Board.

Resolved
That the Board note the report and consider any measures conducive to relieving the current risks and pressures pertaining to the Pension Fund.

10. SAS70 Fund Manager Control Documents

Phil Triggs presented the report informing the Board of the requirement for trustees to be aware of, and comment on, SAS70 Fund Manager Documents which provide guidance to auditors when assessing the internal controls of a service organisation and issuing a service auditor's report.

Resolved
That the Board note the requirement for trustees to be aware of and comment on SAS70 Fund Manager Control Documents.

11. Any Other Items
None.

The Board rose at 13:05pm

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Chair

Item 4

Pension Fund Investment Board 30 July 2012

Investment Performance

Report of the Head of Finance

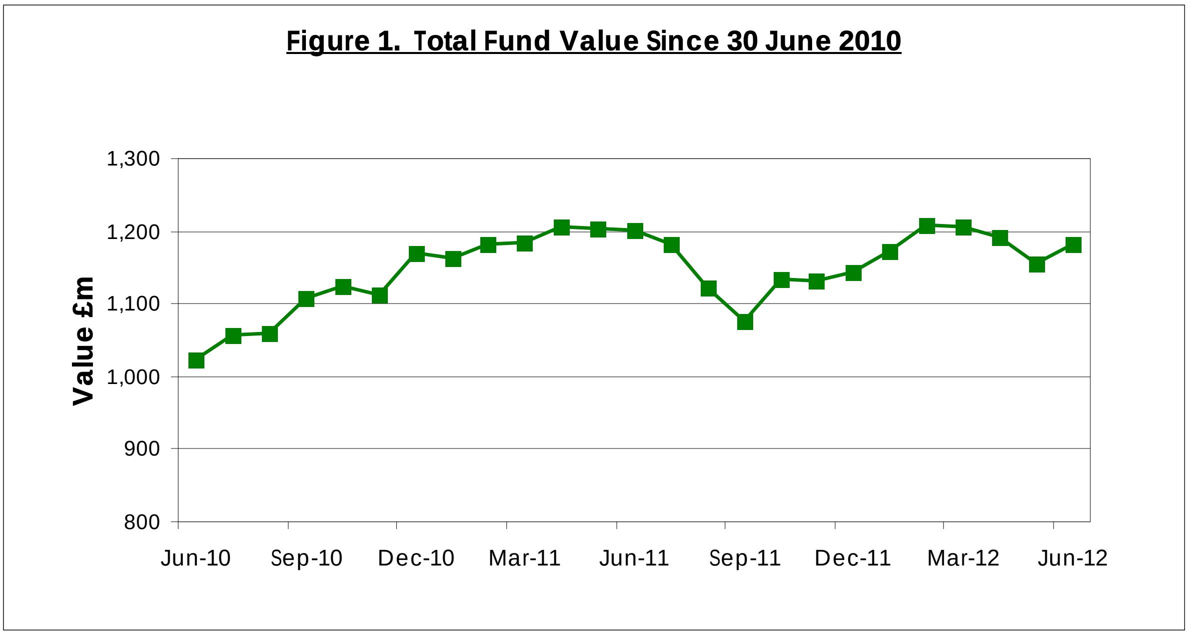
Recommendation

That the Investment Board note the fund value and investment performance for the first quarter in 2012/13 to 30 June 2012.

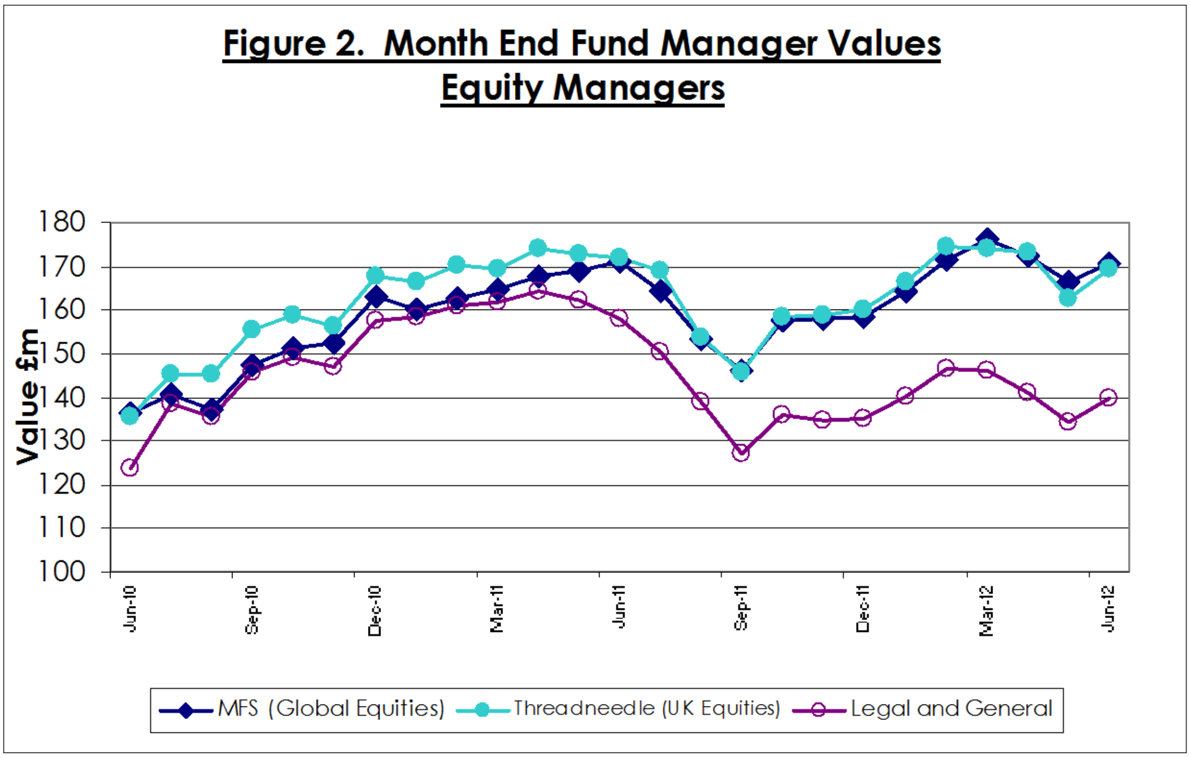
1. Fund Value at 30 June 2012

1.1 The report to the Board's meeting on 21 May 2012 gave the fund position of £1,205.3m at 31 March 2012.

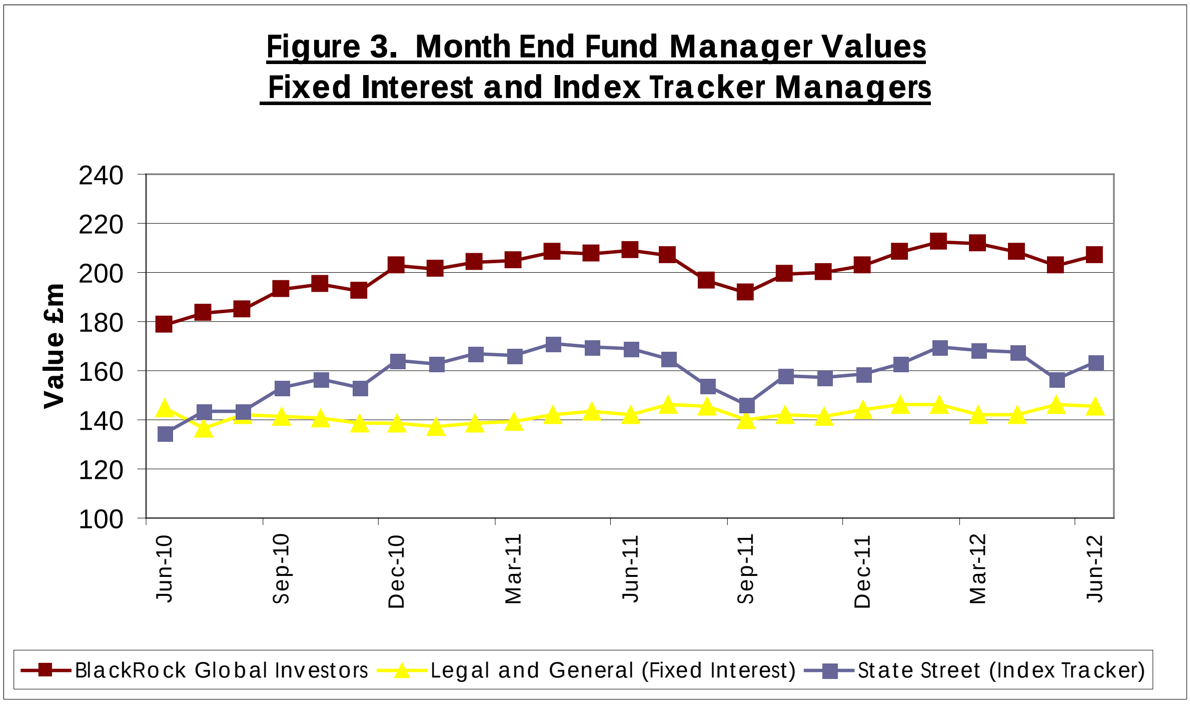
1.2 The fund value was £1,183.2m at 30 June 2012.



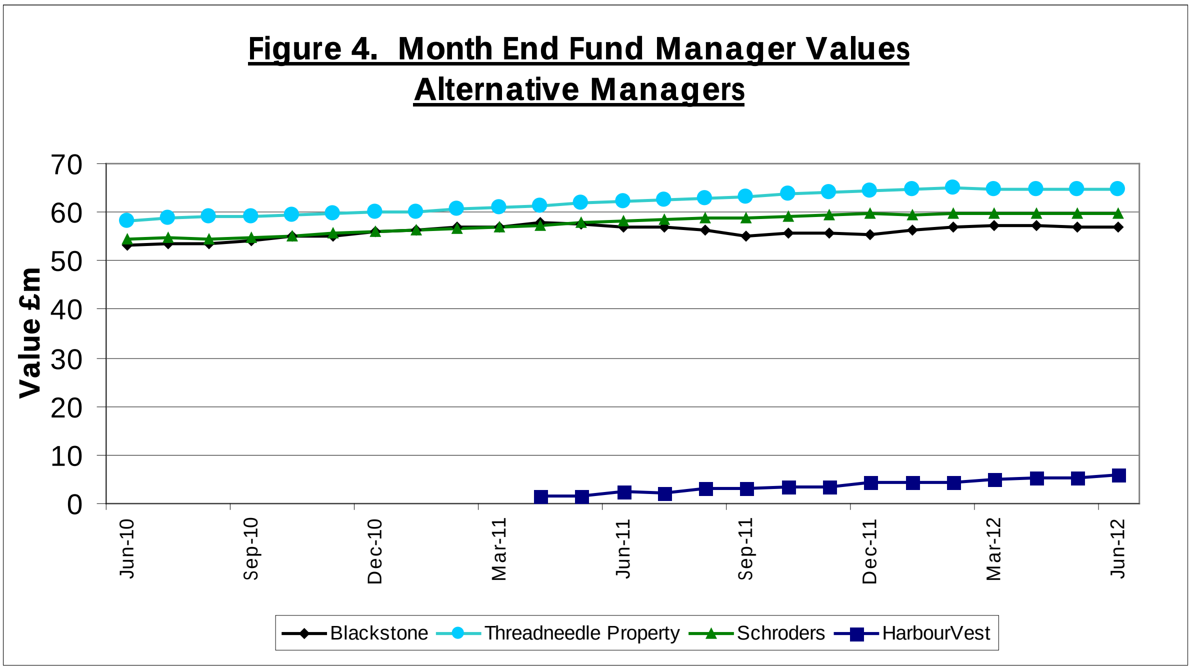
1.3 The values of the portfolios invested with the equity managers are shown in Figure 2.



1.4 The values of the portfolios invested with the Fixed Interest and Index-Tracker Managers are shown in Figure 3.



1.5 The values of the portfolios invested with alternative investment managers are shown in Figure 4.



2. Fund Asset Allocation

2.1 The performance of the Fund against its asset class benchmarks for the quarter ending 30 June 2012 is shown in Table 1.

Asset Class		Q/E Jun 2012	Fund policy %	Over/under weight %
Equity		**64.40**	**60.00**	**4.40**
	UK	35.00	30.30	4.70
	Europe (ex UK)	11.80	11.70	0.10
	North America	11.80	9.00	2.80
	Far East/Emerging Markets	5.80	9.00	-3.20
Fixed Income		**19.30**	**20.00**	**-0.70**
	UK corporate bonds	8.20	10.00	-1.80
	UK government bonds	5.70	5.00	0.70
	UK index linked bonds	5.40	5.00	0.40
Hedge Funds		**4.80**	**5.00**	**-0.20**
Private Equity		**0.50**	**5.00**	**-4.50**
Property		**10.30**	**10.00**	**0.30**
Cash		**0.70**	**0.00**	**0.70**
Total		**100.00**	**100.00**	**0.00**

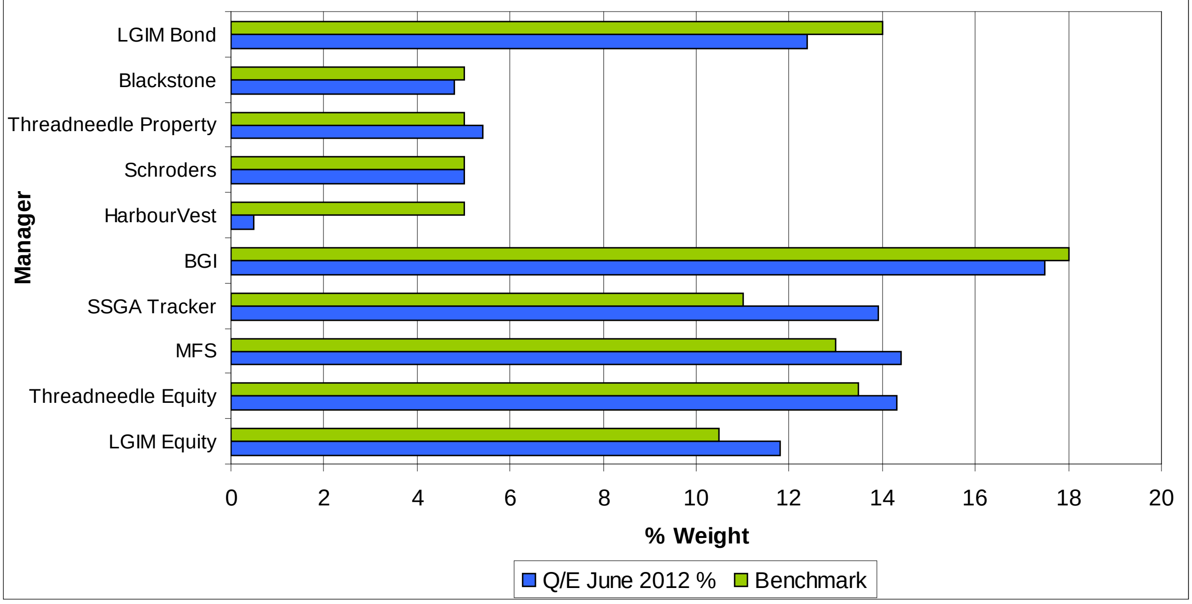
2.2 The fund managers' asset allocation against the benchmark for the quarter ending 30 June 2012 is shown in Table 2.

Table 2: Fund Asset Allocation by Manager

Manager	Benchmark	Q/E June 2012 %	Varience
LGIM Equity	10.5	11.8	1.3
Threadneedle Equity	13.5	14.3	0.8
MFS	13.0	14.4	1.4
SSGA Tracker	11.0	13.9	2.9
BGI	18.0	17.5	-0.5
HarbourVest	5.0	0.5	-4.5
Schroders	5.0	5.0	0.0
Threadneedle Property	5.0	5.4	0.4
Blackstone	5.0	4.8	-0.2
LGIM Bond	14.0	12.4	-1.6
Total	100.0	100.0	0.0

2.4 Fund asset allocation against each manager is shown in Figure 5.

Figure 5. Manager Allocation - Quarter Ending 30 June 2012



2.5 HarbourVest will not be fully subscribed for some time as funds will be drawn down when the manager periodically requests the instalment payments.

3. Fund Performance

3.1 The performance of the Fund against its asset class benchmarks for the quarter ending 30 June 2012 is summarised in the table below.

Table 3: Performance by Asset Type

Asset Type	Benchmark Measure	Q/E Jun 2012	Benchmark %	Variance %
Equity				
United Kingdom	*Total Fund UK Composite*	-2.68	-2.61	**-0.07**
Europe ex UK	*FTSE AW Dev Europe ex UK*	-6.45	-7.09	**0.64**
North America	*FTSE AW Dev North America*	-1.61	-1.36	**-0.25**
Japan	*FTSE World Japan*	-5.42	-5.47	**0.05**
Pacific Basin ex Japan	*FTSE AW Developed Asia Pacific (ex Japan)*	-4.39	-4.38	**-0.01**
Emerging Markets	*Total Fund Emerging Markets Composite*	-6.79	-7.28	**0.49**
Fixed Income				
UK Corporate Bonds	*iBoxx Sterling Non-Gilts*	2.21	2.12	**0.09**
UK Government Bonds	*FTSE UK Government All Stocks*	3.32	3.76	**-0.44**
UK Index Linked Bonds	*FTSE UK Government Linked Gilts*	0.63	0.65	**-0.02**
Alternatives				
Property	*Property Benchmark*	-0.06	0.20	**-0.26**
Hedge Funds	*Hedge Funds Benchmark*	-0.71	1.63	**-2.34**
Total WCC Fund	***WCC Total Fund Benchmark***	**-1.93**	**-1.69**	**-0.24**

3.2 Overall, the fund under-performed the benchmark by 0.24%. There was under-performance in seven asset classes:

- UK Equities performed 0.07% below the benchmark.
- North American Equities performed 0.25% below the benchmark.
- Pacific Basin ex Japan performed 0.01% below the benchmark.
- UK Government Bonds performed 0.44% below the benchmark.
- UK Index Linked Bonds performed 0.02% below the benchmark.
- Property performed 0.26% below the benchmark.
- Hedge Funds performed 2.34% below the benchmark.

3.3 However, four asset classes out-performed their benchmarks in the quarter.

- European Equities performed 0.64% above the benchmark.
- Japanese Equities performed 0.05% above the benchmark.
- Emerging Markets performed 0.49% above the benchmark.
- UK Corporate Bonds performed 0.09% above the benchmark.

3.4 The performances of managers against their benchmarks for the quarter ending 30 June 2012 were:

Table 4: Performance by Fund Manager

Manager	Benchmark Measure	Q/E Jun 2012 %	Benchmark %	Variance %
BlackRock Global Investors		-2.33		**0.00**
	BlackRock Benchmark		-2.33	
MFS		-3.22		**0.87**
	Global Equity Benchmark		-4.09	
State Street Tracker		-2.62		**0.00**
	FTSE All-Share		-2.62	
Threadneedle		-2.70		**-0.08**
	FTSE All-Share		-2.62	
Legal and General (Global Equities)		-4.47		**-0.27**
	LGIM Benchmark		-4.20	
Legal and General (Fixed Interest)		2.58		**-0.36**
	LGIM Benchmark		2.94	
Threadneedle Property		-0.05		**-0.25**
	Threadneedle Property Benchmark		0.20	
Schroders Property		-0.07		**-0.27**
	Schroders Property Benchmark		0.20	
Blackstone Hedge		-0.71		**-2.34**
	Blackstone Hedge Benchmark		1.63	
Total		**-1.93**		**-0.24**
	WCC Total Fund Benchmark		**-1.69**	

Source: BNY Mellon

3.4 Overall the fund under-performed its overall benchmark by 0.24%. During the quarter Threadneedle (UK Equities), Legal and General (Global Equities), Legal and General (Fixed Interest), Threadneedle (Property), Schroders and Blackstone under-performed their benchmarks. All other managers either equalled or out-performed their benchmarks.

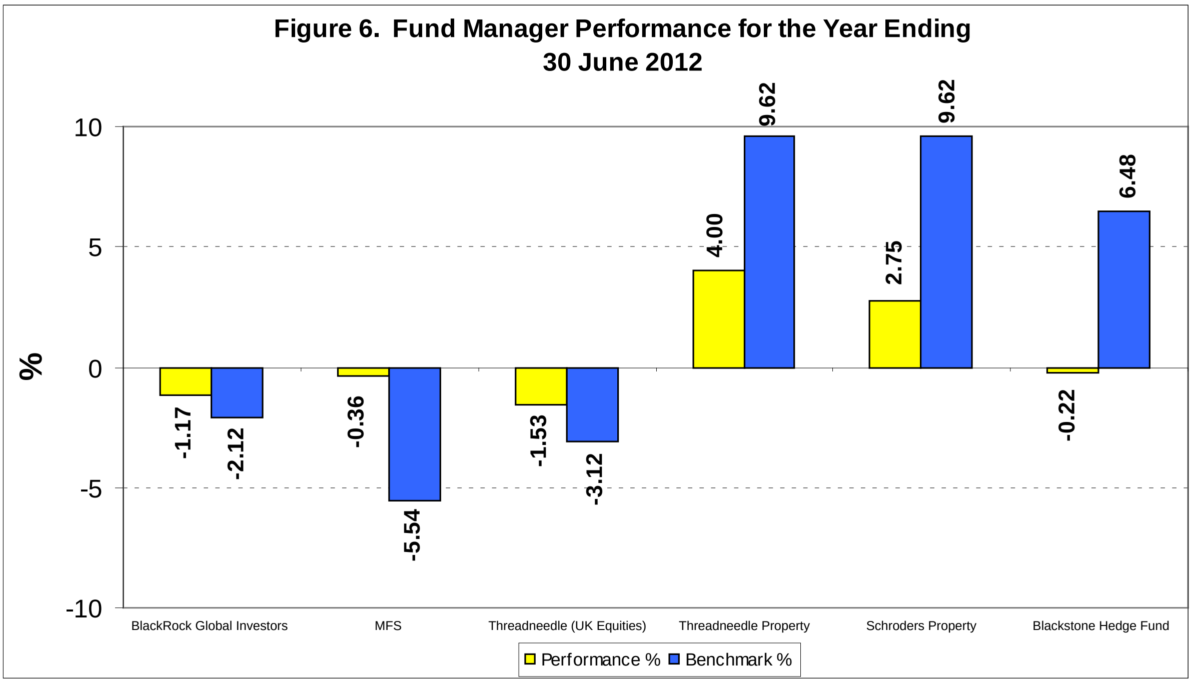
3.5 Twelve months data on the performance of the managers is available. The performance of managers against their benchmark over this period is shown below.

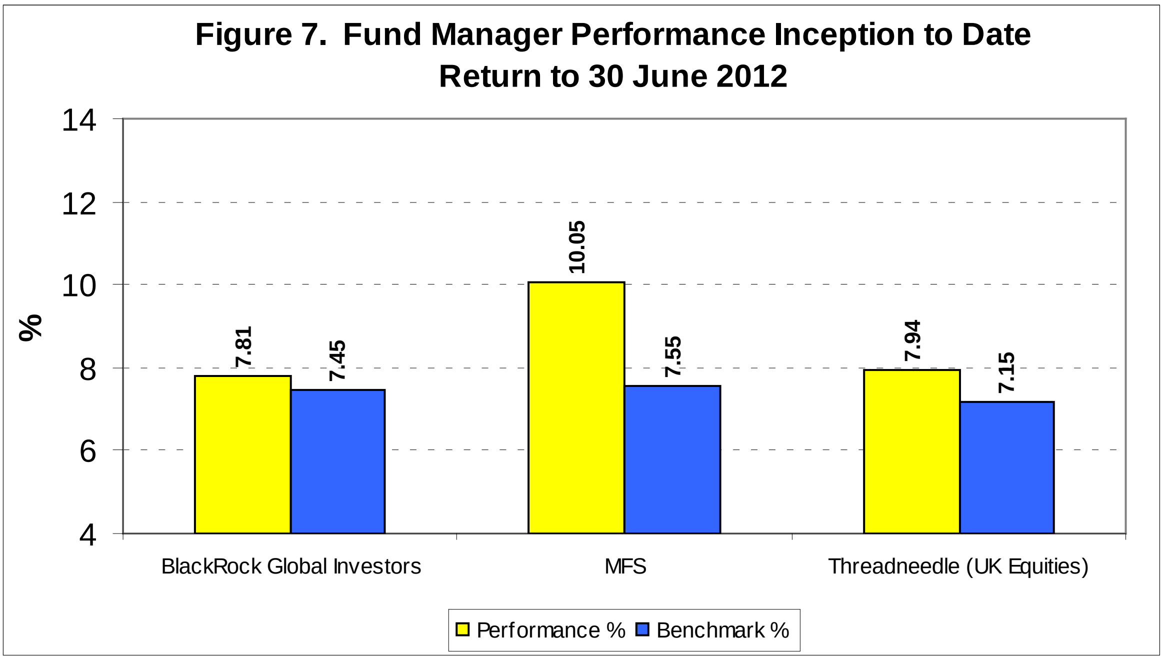
Table 5: Fund Manager Performance to Date

Manager	Variance Q/E Sep 11 %	Variance Q/E Dec 11 %	Variance Q/E Mar 12 %	Variance Q/E Jun 12 %
BlackRock Global Investors	**1.03**	**0.08**	**-0.25**	**0.00**
MFS	**0.23**	**2.16**	**2.36**	**0.87**
State Street	**0.04**	**0.06**	**0.04**	**0.00**
Threadneedle	**-1.81**	**1.55**	**2.58**	**-0.08**
Legal and General (Global Equities)	**-1.82**	**0.32**	**0.08**	**-0.27**
Legal and General (Fixed Interest)	**-0.88**	**-0.29**	**0.61**	**-0.36**
Threadneedle Property	**-1.49**	**-1.22**	**-2.41**	**-0.25**
Schroders Property	**-1.82**	**-1.85**	**-2.67**	**-0.27**
Blackstone Hedge	**-5.00**	**-0.80**	**1.70**	**-2.34**
Total	**-0.66**	**0.16**	**0.58**	**-0.24**

Source: BNY Mellon

3.7 The Annualised return for the fund managers to 30 June 2012 is summarised in Figure 6. The Inception to Date return is summarised in Figure 7.





Source: BNY Mellon

3.8 Fund Manager performances against their benchmarks are summarised in Figures 8 and 9.

Figure 8. Fund Manager Out/Under Performance Against Their Benchmark Since June 2010 - Equity Managers

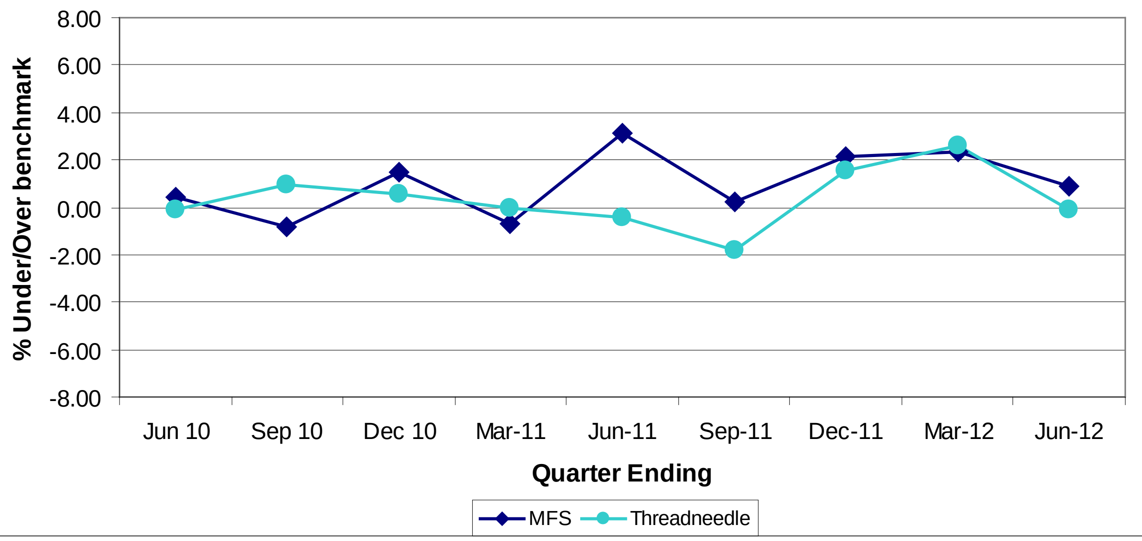
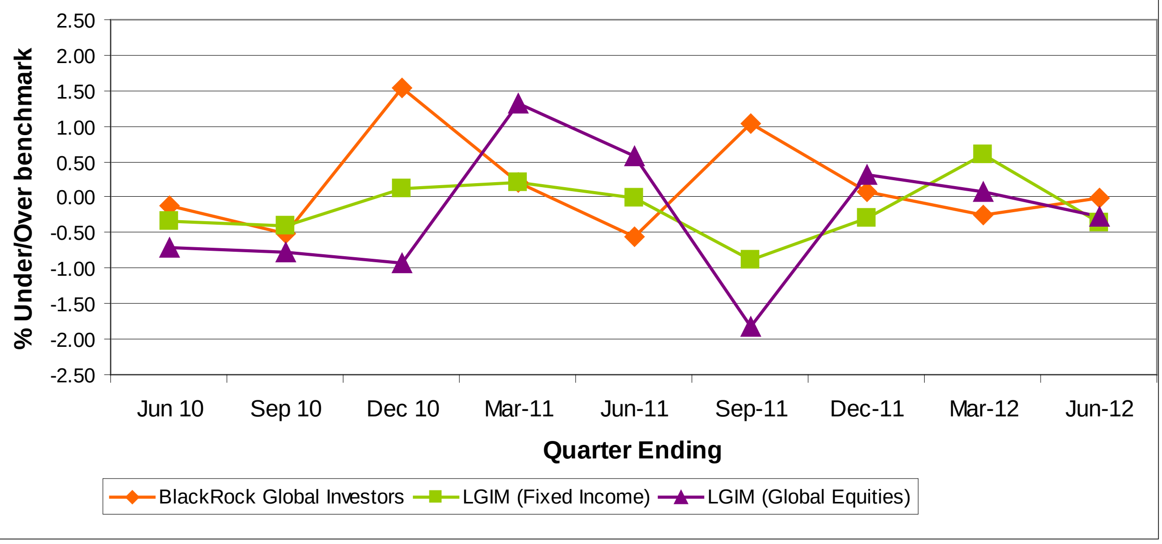


Figure 9. Fund Manager Out/Under Performance Against Their Benchmark Since June 2010 - Passive Managers



Source: BNY Mellon

	Name	Contact Information
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Chair	Cllr Chris Davis	cllrdavis@warwickshire.gov.uk

Item 5

Pension Fund Investment Board
30 July 2012

Pension Fund Cash Flow

Recommendation
That the Board considers and comments on the report.

1. Introduction

1.1 Cashflow management is an integral element of the administration of any pension scheme. The Fund has to meet its ongoing benefit payments. These may consist of monthly pension payroll, transfer value payments, retirement lump sums and death benefits.

1.2 In order to be able to meet these benefit payments, the Fund requires ready access to cash. Cash may be obtained from payments into the Fund in the form of contributions, from investment income (dividends and interest) drawn from the Fund's assets and by the sale of assets.

1.3 Board members and officers are currently concerned as to the extent to which future estimated contributions due to be received are sufficient to meet the expected benefits outgo over the 'short-term' (defined as three years).

2. Analysis of Historical Cashflows and Method for Estimating Future Cashflows

2.1 In order to estimate future benefit payments from the Fund (pensions and normal retirement lump sums), the fund actuary, Hymans Robertson, has modelled estimated future benefit payments from membership data at the date of the most recent actuarial valuation of the Fund (at 31 March 2010).

2.2 This ensures that the estimated future benefits reflect the expected future deaths among existing pensioners and the expected future retirement dates of the existing workforce.

2.3 There have been significant changes in membership since the date of the last valuation (31 March 2010) and differences between actual and assumed financial conditions (e.g., actual versus expected pension inflation increases). Hymans have therefore made approximate adjustments to the results from the model to allow for these differences since 2010.

2.4 By comparing the actual Fund benefit payments (pensions and lump sums) over the two-year period from 1 April 2010 to 31 March 2012 with those expected from the 2010 valuation, reasons for any differences can be identified and used to calibrate the projected future benefit payments based on actuarial valuation data for short-term use.

2.5 In the tables below, actual cashflows for the two-year period 2010-12 are compared with those expected based on data at the 2010 valuation and the assumptions about future pension increases and pay growth at the time of the valuation. Please note that future investment income from fund managers is not an output from the model used to generate future liability cashflows, and "expected" future investment income is therefore not available for the tables below.

Table 1: Comparison of actual and expected outgo since 1 April 2010

	2010/11 (£m)		**2011/12 (£m)**	
	Actual	**Expected**	**Actual**	**Expected**
Pensions	39.6	38.3	44.7	42.1
Lump Sums	16.3	11.7	17.4	13.8
Total	**55.9**	**50.0**	**62.1**	**55.9**

Table 2: Comparison of actual and expected income since 1 April 2010

	2010/11 (£m)		**2011/12 (£m)**	
	Actual	**Expected**	**Actual**	**Expected**
Contributions	55.0	53.6	54.9	53.7
Investment Income	3.3	n/a	2.7	n/a
Total	**58.3**	**53.6**	**57.6**	**53.7**

2.6 We can make the following observations from these comparisons.

Pensions in Payment

2.7 Pension outgo is higher than that expected at the 2010 valuation, specifically,

- 2010/11 actual pension outgo is 3.4% higher than expected, and
- 2011/12 actual pension outgo is 6.2% higher than expected.

A key reason for this is likely to be a higher incidence of early retirements. Pensioner membership increased by around 15% over the period 2010-12, which helps explain the increase in pensioner payroll.

Retirement Lump Sums

2.8 Lump sums (including death grants) are higher than that expected from the 2010 valuation. This may be due to either:

- the number of retirements being greater than that assumed, for example, due to redundancies, and
- the amount of tax free cash (commutations) taken at retirement being in excess of that assumed.

Contributions

2.9 Actual contributions received in 2010-12 have been affected by the number of early retirements. Early retirements reduce the employee membership, reduce the pensionable payroll and reduce contribution income. Despite this actual contributions received over the period 2010-12 have been higher than the expected figure projected from valuation cashflows. This is partly because the cashflows projected from the valuation data include no allowance for new entrants or strain payments received as a result of early retirements.

2.10 Due to the limitations of the contribution income projected from 2010 valuation data, Hymans have instead estimated short term contribution income by applying certified contribution rates to up-to-date estimates of payroll (reflecting the fall in the employee membership and pensionable payroll since the 2010 valuation).

2.11 In their actuarial work, Hymans will also need to consider how the pensionable payroll might develop in the short term. In the Chancellor's Budget Statement of June 2010, it was announced that public sector pay would be frozen for two years (from 1 April 2011 to 31 March 2013), with some protection for the low paid. It is reasonable to assume a salary growth rate of 1% p.a. (in excess of the assumption relating to promotional increases) during this period.

2.12 Furthermore, in the 2011 Autumn Statement, the Chancellor announced that public sector pay awards will average 1% p.a. for the two years following the end of the current pay freeze, i.e., until 31 March 2015. Taken in isolation, this reduction in the expected rate of pay growth will result in a lower value of past service benefits compared to that expected at the 2010 valuation (which will affect benefit payments in the longer term). However, in the short term this will also reduce the contribution income expected to be received by the Fund, which is based on a percentage of members' pensionable pay.

Investment income

2.13 Actual investment income realised (net of expenses) is shown to highlight the magnitude of this against other cashflows. Future investment income is not an output from the model used to generate future liability cashflows and "expected" future investment income is therefore not available. This could be estimated directly from actual investment holdings (refer to Section 4).

3. Short Term Cashflow Projection

Methodology

3.1 The principles adopted to estimate future cashflows are set out in **Appendix A**. In summary,

a) Future benefit payments (pensions and normal retirement lump sums) are estimated from 2010 valuation data with appropriate adjustments to reflect changes in membership since then and differences between actual and expected pension increases over the period 2010-12. This method ensures projected benefit payments reflect expected pensioner deaths and new retirements from the existing workforce.

b) Future contributions are estimated from expected contribution rates and estimated pensionable payroll. The estimates allow for expected short term pay restraint.

Projection

3.2 Table 3 below shows the estimated cashflows over the period 1 April 2012 to 31 March 2015.

Table 3: Estimated Cashflows for period 1 April 2012 to 31 March 2015

	2012/13	**2013/14**	**2014/15**
Pensions	-48.3	-51.2	-54.8
Lump Sums	-10.1	-12.6	-13.2
Contributions	53.8	56.2	57.4
Net Cashflow	**-4.6**	**-7.6**	**-10.6**

3.3 It can be seen from the above table that the Fund is already cashflow negative and (on central assumptions) is expected to continue to be so over the three-year period considered.

3.4 The estimated future annual shortfall between contribution income and benefit outflow in 2014/15 is greater than the annual investment income from the Fund's assets in 2010-11 and 2011-12 although there may be more income available (from pooled funds) which is currently being reinvested. No allowance for early retirements has been made in this projection; the lump sums are estimates of lump sums expected as a result of normal retirements.

Sensitivity of Results to More Early Retirements

3.5 Early retirements result in increases to the pension/lump sum payments and may reduce contributions to the Fund. The table below shows the likely cashflows, should the incidence of early retirement over the next three years continue at the same rate as that observed over the period 1 April 2010 to 31 March 2012.

3.6 The total lump sum outgo below represents expected future lump sums from normal retirements plus additional lump sums from early retirements. The latter is derived from the difference over the period 2010-12 between actual total lump sums paid and the expected amounts from normal retirements based on 2010 valuation data.

Table 4: Estimated Cashflows for Period 1 April 2012 to 31 March 2015 Allowing for Early Retirements

	2012/13	2013/14	2014/15
Pensions	-49.6	-53.9	-58.8
Lump Sums	-14.1	-16.6	-17.1
Contributions	53.8	56.2	57.4
Net Cashflow	**-9.9**	**-14.3**	**-18.5**

3.7 The impact of early retirements is to increase lump sum outgo and increase regular pensions in payment. No change to the contribution income has been modelled in this scenario. In practice, regular contributions will fall due to a fall in employee membership and pensionable payroll and there will be an increase in short term contributions from any early retirement strain payments.

4. Investment Income

4.1 Recognising that the Fund is projected to become substantially cashflow negative, consideration should be given to drawing on an increasing proportion of the investment income generated by the Fund's assets, this being more cost effective than realising assets. At present, part of the income is accounted for separately from two of the Fund's investment managers (active segregated portfolios), whilst the income from other managers (pooled funds) is reinvested within the respective portfolios.

4.2 Efforts will need to be made to estimate the maximum level of investment income available to the Fund across all of the investments, though not all of this will be required yet. There is currently no requirement incumbent on the fund managers' targets concerning income generation: achieving benchmark returns is the only stipulation within risk limits. Moreover, realising investment income may ultimately create an imbalance in the overall asset allocation which must also be managed. Hymans recommends that the overall asset allocation continues to be monitored closely on at least a quarterly basis.

4.3 Eventually, assets will need to be sold on a regular basis in order to fund outgoings, though we expect this point to be some time away yet. At that point, account will need to be taken of the long-term nature and underlying liquidity of each of the Fund's investments. The availability of cash alongside the administrative complexity of instructing disinvestment will need to be monitored.

5. LGPS 2014 Scheme

5.1 On 31 May 2012, the Local Government Association (LGA) and trade unions announced the outcome of their negotiations on the new LGPS proposals that are to take effect from 1 April 2014 ("the 2014 scheme"). The proposed changes that affect employee contribution rates are:

- average rates will remain unchanged, but will be based on members' **actual** pay, rather than the current approach which bases contribution rates on full-time equivalent pay;

- the contribution rate for the lowest paid will be the same or less than current rates (due mainly to basing the rates on actual pay) with the higher paid paying progressively higher contributions as income increases; and
- employees will be given a new option to pay 50% of contributions for 50% of pension, while still retaining the full value of other benefits. This is known as the 50/50 option or *LGPS Lite.*

5.2 On average across all LGPS Funds, application of the new bands is expected to result in broadly the same level of employee contribution income as that expected under the current member contribution tariff. In practice, the impact of the new tariff will vary from one Fund to the next, depending on differences in membership including pay distribution and part-time/full-time membership.

5.3 However, there are other possible effects on contribution income. Firstly the 50:50 option could reduce the amount of employee and employer contributions paid into the fund. On the other hand, employer and employee contributions could increase as a result of more members being in the scheme following the introduction of automatic enrolment.

5.4 The likely impact of the 2014 scheme proposals on the cashflow position of the fund is outside the scope of this paper. Further analysis on this will be carried out in the future.

6. Next Steps

6.1 The observations made from this analysis should feed into a cashflow management policy. It is desirable in such a policy that:

- The cash balance maintained is not so large as to reduce the potential for future investment returns.
- The cash balance maintained is not so small so as to create a risk that the balance will be easily exhausted, and thus disinvestments will be required either frequently or at short notice.
- Assets are realised in the most efficient manner possible.

6.2 Regular monitoring of short term cashflows, based on whole fund membership data is recommended and will be continued by officers.

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Appendix A of Item 5

Principles Adopted on Estimation of Future Cashflows

The following principles underpin the calibration of the long-term valuation cashflows for short-term use:

- No allowance is made in the projected cashflows for further early retirements from 1 April 2012, due to the uncertain nature of these. Early retirements increase pensions in payment and lump sum payments and may reduce the contribution income compared to that expected.

- Projected pensions for future years will increase as a result of higher pensions (in excess of that expected at 2010) being paid during the period 1 April 2010 to 31 March 2012. Allowance has been made for pension increase orders (or the valuation assumption where this is not known).

    - Additional pensions of around £1.4m p.a. are assumed to have been paid during the period 2010/11.

    - Additional pensions of around £1.2m p.a. are assumed to have been paid during the period 2011/12.

- The pension increase order for 2012 was 5.2%, compared with the valuation assumption of 3% p.a. The consequence of this is to increase the projected pensions in payment for all years from and including 2012/13 by a factor of 2.1% p.a.

- No adjustments have been made to lump sums in the absence of specific membership data. The difference between actual and expected lump sum payments in 2010/11 and 2011/12 was mainly due to the incidence of early retirements.

- Due to the limitations of the contribution income projected from 2010 valuation data, Hymans have instead estimated short term contribution income by applying certified contribution rates to up-to-date estimates of payroll (reflecting the fall in the employee membership and pensionable payroll since the 2010 valuation). By projecting the pensionable salary for 2011/12 over the period 1 April 2012 to 31 March 2015 in line with the restricted pay growth assumption (1% p.a.) and making allowance for the valuation promotional salary growth assumption, the normal contributions expected to be paid to the Fund over the next three years can be identified. This method allows for new entrants by assuming that new entrants replace leavers/retirees. No allowance is made for strain payments by adopting this approach, which is consistent with the approach taken with respect to early retirements.

Item 6

Pension Fund Investment Board
30 July 2012

LIBOR Investigation

Recommendation
That the Board considers and comments on the LIBOR Investigation report.

1. Introduction

1.1 Recent news reports suggest that banks have been manipulating the London Interbank Offered Rate (LIBOR), the suite of global benchmark interest rates, to suit their own purposes. Regulators in all of the world's financial centres have been investigating this issue for a number of years. Barclays Bank has cooperated with the authorities and is the first to have been fined by the Financial Services Authority (FSA) in the amount of £291m.

1.2 As this is an ongoing investigation, it may be some time before a fuller picture of the situation becomes publicly available. However, the FSA has stated that the misconduct included:

a) making submissions which formed part of the LIBOR and Euro Interbank Offered Rate (EURIBOR) setting process that took into account requests from Barclays' interest rate derivatives traders;
b) seeking to influence the EURIBOR submissions of other banks contributing to the rate setting process;
c) reducing its LIBOR submissions during the financial crisis as a result of senior management's concerns over negative media comment.

1.3 This report will highlight the local authority implications of the LIBOR situation.

2. LIBOR Investigation Background

2.1 Barclays Bank has been found guilty of misstating its submissions to the LIBOR panels in two ways. On certain single dates between 2005 and 2008, artificially high or low figures contributed to the 3-month US dollar and Euro benchmarks at the request of individual derivatives traders in order to increase the profit assigned to those traders and so raise their bonuses. This constitutes fraud and criminal charges could be brought against some traders as a result of this practice. However, the practice will not have affected interest rates paid and received by UK local authorities.

2.2 The second manipulation was more systematic. Between 2007 and 2009, Barclays was concerned that its LIBOR submissions were higher than the other banks' figures. It provided deliberately contrived low rates. As ex-chief executive Bob Diamond stressed to MPs on 4 July 2012, it is important to note that the Barclays' figures were still among the highest and so didn't affect the published LIBOR rates.

2.3 The impact of an individual bank's LIBOR submission on the official LIBOR rate is not straightforward to determine because LIBOR is an average of submissions from a panel of banks (the average of the middle eight out of 16 submissions).

2.4 Each LIBOR submission is also subjective: it is essentially the bank's view of the rate at which it can borrow from other banks, not necessarily the rate at which transactions have been made.

3. Possible Local Authority Treasury Losses

3.1 At this juncture, it is difficult to see how any organisation could take any action against Barclays Bank when their actions alone had no direct impact on LIBOR. However, the implication is that many of the other banks on the LIBOR panels may have been manipulating data as well. If many banks were conspiring to keep LIBOR deliberately lower than the true cost of inter-bank lending, then there may be a case to answer.

3.2 Local authorities could have lost out in two ways:

a) by receiving less interest on variable rate deposits where the rate is set at a margin above LIBOR;

b) by paying more interest on variable rate loans such as inverse Lenders Option Borrowers Option instruments (LOBOs) where the rate is set at a figure minus a constant maturity swap rate that is itself linked to LIBOR.

3.3 However, the overall sense is that it will be difficult to prove culpability, especially when dealing with a bank or building society not contributing data to the LIBOR panel. Moreover, there are inherent difficulties in determining what the LIBOR rate should have been.

3.4 Organisations will be waiting to see what evidence emerges about other banks in the near future with the possibility of pursuing out of court settlements.

3.5 Warwickshire County Council has no exposure to either of the above two stated scenarios.

4. Treasury Benchmarks

4.1 Treasury management benchmarks are set to a different standard, being the three-month London Interbank Bid Rate (LIBID). Therefore, there is no effect by the current investigations on treasury benchmarks.

4.2 Treasury returns in the financial year 2011/12 are shown in Table 1.

Table 1: Investment Outturn 2011/12

	Average balance of Investments £m	Rate of Return %	Benchmark Return (LIBID) %
Internally Managed	£142.4	0.45	0.56
Externally Managed	£46.0	1.40	0.62

5. Possible Local Authority Pension Fund Losses

5.1 The relevance to pension schemes is that the payments made relating to derivative contracts often depend on LIBOR in some way. For example, a pension scheme may have an interest rate swap to hedge the interest rate risk in the scheme's liabilities. In this case the scheme will receive a fixed rate of interest (say 3% pa) in return for paying a floating rate of interest (say 6-month LIBOR). If the swap notional is £100m, the difference between 6-month LIBOR being 1% pa and 1.01% pa would be £5,000 over that six-month period. If LIBOR is lower, this benefits the scheme as it is a payer of LIBOR under that interest rate swap.

5.2 There are other situations where a pension scheme may be a receiver of LIBOR, in which case a lower LIBOR would be a disadvantage.

5.3 In the absence of concrete information, it is felt that potential issues can be raised by affected parties at this stage and followed up as more material information becomes available. This may be a matter that is ultimately determined by the courts rather than market participants. Any scheme with derivative exposures or funds benchmarked against LIBOR may have been affected.

5.4 The Warwickshire Pension Fund has never had any exposure to any derivative contracts as described above.

6. Pension Fund Benchmarks

6.1 There may be relevance where a scheme is invested in a fund that is benchmarked against LIBOR and performance fees are paid for out-performance against LIBOR. A lower LIBOR may make it easier for the fund manager to earn a performance fee.

6.2 Any scheme with portfolios benchmarked against LIBOR will have been affected.

6.3 The Warwickshire Pension Fund has no LIBOR related benchmarks.

7. Next Steps

7.1 Considering the matter from both treasury management and pension fund perspectives, our consultants advise that there are no specific actions that local authorities should be taking at the moment, other than to monitor the situation.

7.2 Progress in this investigation from this point is likely to proceed quite slowly. Officers will continue to keep members advised as necessary.

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Item 7

Pension Fund Investment Board
30 July 2012

Local Government Pension Scheme 2014

Recommendation

This report is to advise of the main features of the proposed changes to the Local Government Pension Scheme and for members of the Board to consider a response to these proposals.

1.0 Background

1.1 Following on from Lord Hutton’s report on public service pension reform, the Local Government Association (LGA) and trade unions (Unison, GMB and Unite) have been negotiating on proposals for the new Local Government Pension Scheme (LGPS).

1.2 On 31 May 2012, the LGA and unions announced the outcome of their negotiations on new LGPS proposals (for England and Wales) to take effect from 1 April 2014.

1.3 These proposals will now be communicated to scheme members, employers, funds and other scheme interests. Unions will consult their members over these proposals and the LGA will consult employers.

1.4 Government has confirmed that a favourable outcome to these consultations will enable them to move to a statutory consultation in the autumn.

2.0 Main Proposals for the LGPS 2014

2.1 The main provisions of the proposed LGPS 2014 are:

- A Career Average Revalued Earnings (CARE) scheme using CPI (Consumer Prices Index) as the revaluation factor.
- An accrual rate of 1/49^{th,} an improvement on the current rate of 1/60th.
- Normal Pension Age will be linked to State Pension Age, an increase from the current age 65.
- Average member contributions will be 6.5% (same as the current scheme) with the rate payable by part-timers based on actual pay. The current scheme determines part-time contribution rates on full-time equivalent pay.
- Whilst there is no change to average member contributions, the lowest paid will pay the same or less and the highest paid will pay a higher contribution.
- The introduction of a 50/50 option designed to deter members from opting out of the LGPS 2014 by paying a lower rate of contribution and accruing a lower benefit during that period.
- Protection for current scheme members for service prior to 1 April 2014, including the remaining “rule of 85” protection. Protected past service will

continue to be based on final salary and current normal pension age (NPA).
- Protection for members outsourced on first and subsequent transfers.

2.2 The joint statement consists of ten detailed documents:

- LGPS 2014 – Joint Statement
- LGPS 2014 – Retirement
- LGPS 2014 – Overview
- LGPS 2014 – A Career Average Pension
- LGPS 2014 – Member Contributions
- LGPS 2014 – The 50/50 Option
- LGPS 2014 – Protection
- LGPS 2014 – Glossary
- LGPS 2014 – "At a Glance"
- LGPS 2014 – Frequently Asked Questions

2.3 All of these documents are available on the Pension Funds website: **www.warwickshire.gov.uk/pensions** for scheme members to access.

2.4 The proposals refer only to the main provisions of the LGPS and there is no reference to the current scheme for elected members.

3.0 Administration/Communication Issues

3.1 The Treasury and Pensions Service has embarked on a major communication exercise to publicise the proposals to scheme members. All documentation was made available on the Pension Fund website within 24 hours of being released and work commenced on a newsletter in partnership with our neighbouring authorities (Cheshire, Shropshire, Staffordshire and Worcestershire). The newsletter was despatched to home addresses in early July.

3.2 The proposed changes will present LGPS administrators with a number of communication challenges:

- The introduction of the CARE scheme will mean some LGPS members will have various tranches of benefits (pre 2008, post 2008 and post 2014), all with different retirement ages.
- The introduction of the 50/50 option is designed as a short term alternative to the main scheme, whereby members who find themselves unable to afford the full scheme contribution can reduce their outgoings by paying a half rate contribution.
- Members will have greater flexibility on when they choose to retire.
- Administrators will need to ensure that details of the changes and benefits are provided in an easy to understand way.
- The Treasury and Pensions Service will work closely with their fellow local authority administrators through the Computerised Local Authority Superannuation System consortium (CLASS) to ensure information on benefit entitlement is provided in a concise and easily understandable way.

3.3 The proposed changes will also place further administration requirements on employers:

- The rate of contribution for part-time members will be based on actual pay (including overtime). The contribution rate is currently based on full-time equivalent pay.
- Employers will need to keep administrators advised of current pay/salary for protected members as their benefit entitlement for pre 2014 service will be based on salary.

4.0 The Next Steps

4.1 The LGA is consulting with employers and the unions will be consulting with their members about the proposals.

4.2 The Government has confirmed that a favourable outcome to the consultations will enable a move to statutory consultation in the autumn to implement the proposals.

4.3 What has not been included are the proposals on how to control future costs of the scheme. It is anticipated that LGA and the unions will submit their proposals on the future management of the scheme by the end of June. However, there may be further delays whilst Government draft the public service pension bill.

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Item 8

Pension Fund Investment Board
30 July 2012

Academies Update

Recommendation

This report is to keep members informed of the number of maintained schools converting to academy status.

1.0 Background

1.1 The Academies Act 2010 enabled schools to apply for academy status to become independent from local authority control and funding. Academies are charitable trusts, set up as companies limited by guarantee, and defined by a contractual relationship with the Secretary of State for Education through a funding agreement.

1.2 The funding for academies is made direct from central Government and the ceding authority loses a comparable level of funding.

2.0 Current Position Statement

2.1 **Appendix A** is the current position document at 10 July 2012, issued by the Law and Governance service and shows the current state of play with regard to maintained schools converting to academy status.

2.2 21 maintained schools and one free school have been admitted to the pension fund as academies. There are a further two definite conversions set for September 2012 with a further three yet to confirm. Two further schools have yet to confirm for November 2012 whilst there are three schools yet to confirm a likely date of conversion.

2.3 The Treasury and Pensions Group continues to receive enquiries from maintained schools wanting further information on pension funding requirements should they convert to academy status.

3.0 Recent Guidance and Pooling of Academies with Maintained Schools

3.1 Recent guidance issued by the Department for Communities and Local Government (DCLG) replaces guidance previously issued in February 2012. The latest guidance has taken into consideration the replies received by DCLG to a questionnaire issued in April 2012. The guidance covers a number of areas about the administration and funding of the LGPS.

3.2 In December 2011 the Secretaries of State for Education and Communities issued a joint statement concerning the possible pooling of academies with maintained schools for actuarial purposes and the assessment of employer contribution rates. Currently, the Secretaries of State still ask that local authority administering authorities treat requests for pooling of academies with maintained schools “favourably”. However, they have moved away from their stance for possible enforcement by way of issuing amending regulations.

3.3 Members should note the Fund’s policy that academies are not pooled with maintained schools for actuarial purposes, on account of the different risks inherent in academies in comparison with other LGPS employer bodies.

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Current Position Statement on Status of Warwickshire Schools - 20 July 2012

1. Secondary Schools

School	Type	Sponsor / Partner	Consulting	Application submitted to DfE	Academy Order Issued	Date of Change (if known)
The Nuneaton Academy	Academy	Part of Midland Academies Trust	✓	✓	✓	Opened 1st September 2010
Polesworth School	Academy		✓	✓	✓	Opened 1st February 2011
Alcester Grammar School	Academy		✓	✓	✓	Opened 1st April 2011
Ashlawn School	Academy		✓	✓	✓	Opened 1st April 2011
Rugby High School	Academy		✓	✓	✓	Opened 1st April 2011
Studley High School	Academy		✓	✓	✓	Opened 1st June 2011
Myton School	Academy		✓	✓	✓	Opened 1st July 2011
Alcester High School	Academy	Caludon Castle School, Coventry	✓	✓	✓	Opened 1st August 2011
Henley High School	Academy	Alcester Grammar School	✓	✓	✓	Opened 1st August 2011
Stratford Girls' Grammar School	Academy		✓	✓	✓	Opened 1st August 2011
Stratford High School	Academy		✓	✓	✓	Opened 1st August 2011

School	Type	Sponsor / Partner	Consulting	Application submitted to DfE	Academy Order Issued	Date of Change (if known)
The Coleshill School	Academy	Caludon Castle School, Coventry	✓	✓	✓	Opened 1st August 2011
King Edward VI School	Academy		✓	✓	✓	Opened 17th August 2011
George Eliot School	Academy	Part of Midland Academies Trust	✓	✓	✓	Opened 1st September 2011
Bilton School	Academy		✓	✓	✓	Opened 1st December 2011
Campion School	Academy		✓	✓	✓	Opened 1st January 2012
Aylesford School	Academy		✓	✓	✓	Opened 1st January 2012
Etone College	Academy		✓	✓	✓	Opened 1st January 2012
Ash Green School	Academy	Creative Education Trust	✓	✓	✓	Opened 1st January 2012
Higham Lane School	Academy		✓	✓	✓	Opened 1st January 2012
Hartshill School	Foundation	Part of Midland Academies Trust		✓	✓	1st September 2012?
Shipston High School	Community		✓	✓	✓	Tbc
Harris School	Voluntary Aided		✓			Tbc
Southam College	Community		✓			Tbc

2. Primary Schools

School	Type	Sponsor / Partner	Consulting	Application submitted to DfE	Academy Order Issued	Date of Change (if known)
Henry Hinde Infant School	Academy		✓	✓	✓	Opened 1st April 2012
Race Leys Junior School	Community	The Griffin Trust		✓	✓	1st September 2012
Tanworth-in-Arden C of E Primary School	Voluntary Aided		✓	✓	✓	1st September 2012 (Tbc)
St. Nicholas C of E Primary School, Alcester	Voluntary Controlled		✓	✓	✓	1st September 2012 (Tbc)
The Nethersole C of E Primary School	Voluntary Controlled	Birmingham CE Diocese	✓	✓	✓	1st September 2012
Birchwood Primary School	Community	The Polesworth Academy / Dordon Primary School	✓	✓	✓	1st November 2012
Dordon Primary School	Community	The Polesworth Academy / Birchwood Primary School	✓	✓		1st November 2012

3. Free Schools

School	Type	Sponsor / Partner	Consulting	Application submitted to DfE	Converted	Date of Change (if known)
The Priors School	Free School		✓	✓	✓	Opened September 2011

Item 9

Pension Fund Investment Board
30 July 2012

North Warwickshire Home Carers (Home Group) Pension Provision

Recommendation

This report is to confirm to the Investment Board the admission agreement for the outsourcing of home care services in north Warwickshire.

1.0 Background

1.1 The Treasury and Pensions Service has been informed by the People Group of the transfer of approximately 35 members of the Local Government Pension Scheme (LGPS) to Home Group Limited, trading as Stonham Services.

1.2 The Treasury and Pensions Service was originally informed by Adult Services that the transfer would take place in January 2012 but that this has now been delayed until July 2012. The service contract has been awarded until November 2015.

1.3 At its meeting in November 2011, the Board agreed in principle for an admission agreement to be drafted if the successful bidder wished to maintain membership of the LGPS for the employees transferring from Warwickshire County Council.

2.0 Home Group Limited

2.1 Adult Services has confirmed that Home Group Limited wishes to have an admission agreement with the Warwickshire Pension Fund in respect of the LGPS members who have transferred.

2.2 Adult Services has carried out a robust assessment of the contractor to ensure that the terms of the contract can be fulfilled. The assessment included a financial assessment to ensure that the contractor is financially stable.

2.3 Home Group Limited is one of the largest providers of social housing, care and support services in the UK. The Treasury and Pensions Service is aware that Home Group has admission agreements with other local authority pension funds.

3.0 Actuarial assessment

3.1 The Pension Fund's actuary has assessed an employer contribution rate of 16.5% and a bond of £102,000.

3.2 Legal Services are in the process of finalising the admission agreement with Home Group Limited

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Item 10

Pension Fund Investment Board
30 July 2012

Warwick Schools Catering Contract (Class Catering Ltd)

Recommendation

That the Pension Fund Investment Board note the admission of Class Catering Limited to the Warwickshire Pension Fund in respect of these three contracts.

1.0 Background

1.1 The Treasury and Pensions Group has been informed that four schools in the Warwick area entered into a contract framework organised by the Eastern Shires Purchasing Organisation (ESPO) which led to the appointment of Class Catering Ltd as the catering provider to the schools. Three of the four schools have employees who are members of the Local Government Pension Scheme (LGPS).

2.0 Warwick Schools

2.1 The application arises because four schools in the Warwick area (Budbrooke Primary, St. Mary the Immaculate, Round Oak and Newburgh) outsourced their catering contracts with effect from 1 September 2012. Of the four schools, Newburgh School does not have any employees who are members of the LGPS.

2.3 To facilitate the procurement of an alternative catering provider, the schools availed themselves to a tendering framework provided by Eastern Shires Purchasing Organisation (ESPO) and the schools decided to appoint Class Catering as their catering provider.

2.4 The total transfer of staff will involve six members of the LGPS.

3.0 Class Catering Ltd

3.1 Treasury and Pensions has been contacted by representatives of Class Catering regarding the admission to the Warwickshire Pension Fund in respect of these three contracts. Because the contracts are initially for three years and the number of staff involved at each school is no more than three LGPS members, the application by Class Catering satisfies paragraphs 2.11 to 2.16 of the Fund's Admissions and Termination policy (Transfer Bodies Grouping).

3.2 Class Catering will contribute the same contribution rate as the transferring employer (WCC), currently 15.5%, for the duration of the contract. The County Council, as the transferring employer, will act as guarantor should the admission body foreclose before the end of the contract. Members will recall that Class Catering Ltd already has five admission agreements with the Pension Fund in respect of contracts in the Stratford area.

3.3 Treasury and Pensions has instructed Legal Services to draw up admission agreements with Class Catering Ltd in respect of these contracts.

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Item 11

Pension Fund Investment Board
30 July 2012

WCC Direct Payment Services: Penderels Trust

Recommendation

This report is to confirm the admission of Penderels Trust to the Warwickshire Pension Fund in respect of the Direct Payment Services contract.

1.0 Background

1.1 This admission agreement is in respect of the Direct Payments Service of Warwickshire County Council. The contract provider is currently the Rowan Organisation which is an admitted body in the Pension Fund.

1.3 The County Council has tendered for the service and the contract has been awarded to Penderels Trust with effect from 1 October 2012 for four years. The transfer of the service from the Rowan Organisation to Penderels Trust affects six existing members of the Local Government Pension Scheme (LGPS).

2.0 Penderels Trust

2.1 Penderels Trust is a national charity based in Coventry and has an admission agreement with the West Midlands Pension Fund for a service contract with Coventry City Council.

2.1 The Council's People Group has confirmed that Penderels Trust wishes to have an admission agreement with the Warwickshire Pension Fund in respect of the LGPS members affected by the transfer. The People Group has carried out a robust assessment of the contractor to ensure that the terms of the contract can be fulfilled. The assessment will have included a financial assessment to ensure that the contractor is financially stable.

3.0 Actuarial assessment

3.1 Treasury and Pensions has agreed an employer contribution rate of 16.3% and that, in the event of foreclosure, the County Council will guarantee any unfunded liabilities.

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