PAPER B

Minutes

Name of meeting	**ISLE OF WIGHT COUNCIL PENSION FUND COMMITTEE**
Date and time	**17th FEBRUARY 2012**
Venue	**COUNCIL CHAMBER, COUNTY HALL**
Present	Councillors: Roger Mazillius (Chair), Peter Bingham, Barry Abraham, Tim Hunter-Henderson, Reg Barry, Vanessa Churchman Representatives: Penny McCoy, Admitted Bodies Representative Steve Milford, Unison Representative Officers: Dave Burbage, Strategic Director of Resources, Jo Thistlewood, Technical Finance Officer and Carol Harrison – Minutes.
Apologies	Councillor: Wayne Whittle

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1. **Minutes of the meeting held on 18th November 2011 (Paper 1)**
There were a number of minor errors within the minutes which have to be considered before being approved.

Resolved:
That the Strategic Director of Resources revises the minutes as appropriate and re-circulate for approval.

2. **Declarations of Interest**
Cllrs Reg Barry and Roger Mazillius declared an interest as members of the Isle of Wight Pension scheme.

3. **Public Question Time**
No members of the public were present.

4. **Correspondence (Paper 1A)**
Correspondence had been received from Mr Webb (a member of the public) who had expressed an interest in the Lloyds Bank position in particular and had asked that his letter be brought to the attention of the committee. A response was made to Mr Webb which was also attached and he followed that up with thanks for the response. It set out in the response that a review would be undertaken during the year.

There are a number of issues that need to be looked at such as Local Authorities taking over Public Health responsibilities and related issues about socially responsible investments like tobacco companies. There are also issues around bank bonuses. Each of the Fund Managers have particular policies which we have copies of and it is an opportune time for the committee to review the funds overall approach. Cllr Mazillius agreed that this was all planned work which is in hand.

Cllr Barry asked whether we were members of LAPF as he receives a magazine from them. The Strategic Director of Resources responded by saying that we are not but are a member of the National Association of the Pension Funds (NAPF) and there is also the Local Authority Pension Fund forum which we are not members of and we have taken the view that there are only so many organisations that we should belong to. We are also members of the CIPFA Pensions Forum which covers technical aspects.

Business Items

5. **Actuarial and Investment Consultancy Services verbal update**
The Strategic Director of Resources asked the Committee to formally minute that the Pension Committee met and interviewed candidates for actuarial and investment consultancy services and as part of that procurement process Hymans Robertson were appointed for Actuarial services and Mercer Ltd were appointed for Investment Consultancy services. These contracts will be effective from 1st April 2012.

RESOLVED:
It was agreed to formally minute the appointment of Hymans Robertson LLP for Actuarial Services and Mercer Ltd for Investment Consultancy Services.

6. **Admitted Bodies (Paper 2)**
The Strategic Director of Resources set out the latest position on admitted bodies to the pension fund.

There have been previous reports about admitted bodies and the potential changes and the report highlighted the main issues that have arisen recently. In particular the Council used to run a bus operation called Wight Bus which had ceased and a number of staff have been transferred to Southern Vectis under TUPE Southern Vectis applied for admitted body status which had now been completed.

In legal terms if TUPE applies and the organisation that is subject to the transfer applies for admitted body status and complies with the necessary conditions of admitted body status then legally it has to be agreed. The Council as a letting authority in the sense of letting contracts has a particular responsibility separate from its position as an administering authority of the fund. Any admission agreement looks to protect the fund and the other admitted bodies and if for any reason a new admitted body fails to meet its obligations then that would fall back to the Council as letting authority.

In relation to further changes highlighted in paragraph 5 these are being progressed. The Highways PFI will complete its procurement stage this year. It is for the successful contractor to decide whether they want to become an admitted body, which is likely, but they can if they wish provide a broadly comparable pension scheme instead, further reports will be brought back on progress.

The Council is also progressing a number of transfers such as Ventnor Botanic Garden, where staff are subject to TUPE and there could be an application for admitted body status. In paragraph 6 there is an updated position on admitted bodies which shows that Southern Vectis have 24 active employees that have transferred. The Council is the biggest portion of the fund, with IOW College as a scheduled body with 4% and the rest are about 4% as well.

The Committee was asked to formally agree that Southern Vectis becomes an admitted body to the fund.

Cllr Bingham asked if the Rural Community Council (RCC) were an admitted body. The Strategic Director of Resources responded by saying that the RCC were an admitted body, but the Council entered into an agreement whereby the Council assumed the pension responsibilities and liabilities of the staff and they are paying the Council a certain sum over three years. As far as the pension fund is concerned they are now included as part of the Council, who now have the responsibility for those liabilities and RCC have ceased to be an admitted body.

Cllr Barry asked in respect of the PFI, if we would be asking for a bond? The Strategic Director Resources responded by saying that there is a provision under the regulations to ask for a bond and there is a process to go through to evaluate that. The difficulty with a bond is it can be quite expensive and can be difficult to obtain in certain circumstances and the cost of that would fall back on the letting authority. The other issue with a bond is it is an actuarial assessment of the pension liability risks and they make no assessment of the company. They are assessing the risk of what would happen if those liabilities fell back on the fund, what they don't assess is the viability of the company. The way the contract would work under the PFI is that the bidders/tenders would add into their price the liabilities that they would incur in respect of pensions and the situation you would get to is like a pass through arrangement where effectively the council is still paying for those liabilities so in those circumstances it could be viewed that a bond is not really of any additional value. The council would continue with the liabilities of the staff transferred other than the additional costs of the liabilities and benefits arising from redundancies etc. It will be part of the decision at the end whether to have a bond or not. What we are trying to do in the admission agreement is to protect the fund so that any liabilities that do fall back would fall back on the Council as letting authority. If you include it up front then those costs will fall back on the Council as letting authority anyway.

Cllr Barry asked about risk assessment, the Strategic Director of Resources responded that the issue is that it is the letting authority that lets the contract that incurs the liability and doesn't fall back on the other admitted bodies. The admission agreement sets out legally who is responsible for what and under the PFI it is the letting authority that is still responsible for the vast majority of the liabilities for the staff and therefore the only element that the contactor would be responsible for would be any actions they take in increasing pay or by making staff redundant or anything else from a discretionary point of view that increased their benefits. The actual risk element is limited. If they became insolvent then either the staff would come back to the Council because it would still have to run the PFI or they would go to a new contractor so there is not that huge a risk. It is part of the risk assessment when the Council enters into the arrangement. All the contractor will do is effectively cost all the liabilities which the contractor has to meet and add the cost to the price that the Council pays. So whereas it is right that we go through that process to assess the risk most of the risk of the staff will continue with the Council as if they had carried on working for the Council. It is the admission agreement that protects the other admitted bodies and the fund to make sure that in whatever circumstances it is not the fund that meets that liability.

The Union representative asked what the position was with potentially a whole range of smaller companies, should council services be externalised or outsourced to fairly small organisations. What would be the council's position be in meeting those liabilities. The Strategic Director of Resources responded by saying that with small organisations there is a huge risk that they wouldn't be able to meet on-going liabilities from the LGPS. The future costs can be quite expensive, so at the point of transfer it is necessary to determine who is responsible for those liabilities going forward. Any arrangements would deal with that at the point of transfer. There are these risks and costs and it is the letting authority that would take those risks. No small or voluntary organisations are likely to take those risks because they would not be able to afford to. If the Council decides to transfer an undertaking to a small organisation the organisation will firstly want at the point of transfer that all the liabilities of those staff are paid for by the council first, and they would need to understand what liabilities they are assuming going forward and again they will factor that in to the deal. The admission agreement would reflect the agreed position to protect the Fund.

RESOLVED:

THAT the Committee note the updated position on admitted bodies and formally agree the inclusion of Southern Vectis as an admitted body to the fund.

7. **Effectiveness of the Pension Fund Committee (Paper 3)**

The Strategic Director of Resources introduced paper 3 which outlined the issues that the Committee needed to consider in ensuring that it remained effective. In particular it set out proposals in relation to:

- The work plan of the committee
- Training Needs Assessment
- The framework for measuring and monitoring the Committee's performance and the CIPFA, skills and knowledge framework.

The report brings all these aspects together as they are inter-related. In simple terms, as set out at paragraph 6, the Committee has a work plan to discharge its roles and responsibilities, a knowledge and skills framework required to undertake that work plan, a training needs analysis to identify any gaps in knowledge, a training programme to address these gaps and a performance framework to measure the effectiveness of the Committee.

As far as the Knowledge and Skills Framework is concerned there is a suggested Code of Practice and Statement from CIPFA to make sure that the Committee have appropriate knowledge and skills at officer level and member level. Paragraph 11 onwards summarises the responses from the questionnaire and in very simple terms the scoring method of 5 for fully aware, 3 for some knowledge, 1 for basic awareness and 0 for none would give an average 65% rating which is good.

The general response was that certain initial sessions around the role of the committee, LGPS overview, questioning and challenging skills, and investment technics in particular, were the areas the Committee should concentrate on to begin with. Appendix 3 is suggesting that the initial training plan from those priorities would be the areas to begin with.

It is proposed that Mercer as our new Investment Consultant advisors, the Fund Managers and WM Company plus officers be used to undertake the training. The Committee is restricted to the number of meetings it holds and if there are specific seminars that come along that might be of particular value, for instance if Schroder or Hymans Robertson are running a particular trustee training course, then some members of the committee could attend. It would however, be more cost effective if the Committee were undergoing training activities altogether rather than individually going off Island to do that.

Cllr Mazillius said that we all agreed that we would like to have the training on the same day as the Committee meeting, starting at 09.00 split into 20min sessions and then finish 5-10 mins before the actual committee started.

RESOLVED:
The Committee agreed the recommendations as follows:

1. **Adopts the CIPFA Knowledge and Skills Framework Code of Practice**
2. **Designates the Strategic Director of Resources as the designated person for ensuring the policies and strategies are implemented**
3. **Agrees the policy statements set out in Appendix 2**
4. **Agrees the initial training plan set out in Appendix 3**
5. **Agrees the performance management framework in Appendix 4.**

Action:
It was noted that appendix 1 under custodian arrangements that the tick is missing and this to be inserted.

Local Government Pension Fund Issues

8. **Update on LGPS Changes (Paper 4)**
The Strategic Director of Resources introduced this report updating the Committee from the last meeting on the government consultation on changes to the LGPS. Since the last report there has been some changes and the LGA have set out a timetable for implementation of the framework of the new LGPS. The Unions and Government have agreed the Heads of Terms under which the framework would be developed.

Previously there was a proposal for some short term measures which looked at making cost savings by either increasing employee contributions or reducing the accrual rate and then looking at the longer term changes such as final salary scheme to a career average scheme, some other changes which link to pensionable age, and potentially having a cap on employer contributions costs. The thrust at the moment is as the next triennial revaluation will be done as at the 31st March 2013 and implemented in 2014/15 is to try and do the short term and long term changes together and try to agree all those heads of terms and issue regulations for any changes by 1st April 2013 but with implementation from 1st April 2014. If the regulations are in place by 1st April 2013 then when the actuaries look at the various aspects of the revaluation they can then take those changes into account in that revaluation. The aim is that the changes that are made will reduce employer costs and therefore reduce contribution rates.

Cllr Churchman commented at least the government is now treating the local government pension scheme separately and not as originally proposed all lumped together with the public sector schemes.

The Strategic Director of Resources responded by saying that the LGPS is a funded scheme whereas the fire service isn't, they all have different contribution rates and different aspects, so the LGPS is different, the important aspect as highlighted here and previously is that it will carry on to be a funded scheme and still be a defined benefit scheme. There will be protection for individuals within 10 years of retirement, the government are looking to change it to career average, potentially to change the accrual rate and other aspects of retirement age which will obviously reduce costs. There is also still a proposal around capping employer contributions.

The Union representative commented that the union side was obviously pleased that the short term detrimental changes had been dropped and awaits with interest to see the outcome of negotiations regarding the career average scheme.

RESOLVED:
THAT
The report is noted.

Fund Performance

9. **Isle of Wight Pension Fund Overview (Paper 5)**
The Strategic Director of Resources advised regarding overall quarterly performance. We are not inviting all the managers along to every meeting, and do that annually now so as to assess performance on a longer-term basis. The overview as at the 31st December 2011 in performance terms compared to the benchmark gives disappointing figures. When Majedie come in we can ask questions about strategy and performance. If you take the benchmark to outperform by 2% on equities, bonds etc then comparison to benchmark the actual performance is down from that although if you look at it from inception it is a better picture. In August this year (2012) all of the managers will have been in place for three years and within the work plan we would be looking to do a review of performance over that three year period.

Cllr Hunter-Henderson expressed the view that it should be noted that the Committee is not very happy with this and when you look at the benchmark there is clear under performance. We should express that this is not good performance.

The Strategic Director of Resources agreed it was obviously not a good quarter and clearly figures can be produced for previous quarters but cautioned about reacting to one quarter, as the previous quarter may have been quite different. The benchmark performance is an average and some funds perform better and some worse in varying market conditions. It also might be around the asset allocation. We need to look at the trends and that is why three years is the minimum, the danger is if you just look at quarterly performance figures then you can get a distorted picture, there are some investment managers that do better in a dipping market rather than an improving one but the reason we get the managers along is that we can grill them and therefore they can be accountable for their performance. Once we receive a three year picture, we will have a more rounded picture.

Cllr Bingham suggested that at the annual meeting that we have an analysis of the whole year, rather than look at one quarter to see the trends in performance.

The Strategic Director of Resources responded by saying that we would have an annual review and then look at performance over a three, five and ten year period. Cllr Hunter-Henderson makes a good point but in the past we tended to concentrate on quarterly performance which is too short term. We are having one manager at each meeting so the Committee is able to hold them to account..

Cllr Churchman asked if that due to the state of Europe at the moment which obviously affects the UK are we likely to see an increase in global equities as opposed to UK equities.

The Strategic Director responded by saying that there is a lot of turmoil in Europe and other markets as well. The Fund is very heavily exposed in equities of 70% plus. As part of this years work plan we will look at performance on an annual and three year basis and also review our asset allocation. It maybe as part of that review that a bigger proportion of the fund goes to alternative asset classes although they can themselves be more expensive and they can be volatile.

Cllr Mazillius mentioned that at the next committee meeting on the 18th May Mercer were down to give a presentation and discuss asset allocation as well as performance benchmarks, so it will dovetail very neatly into the concerns being expressed now and of course we will have the final quarter results.

RESOLVED:

- **i) That the overall performance be noted.**
- **ii) That an analysis of annual performance be reported at the annual meeting.**

10. **Attendance of Fund Managers**

Report of Majedie (Rob Harris and Nicola Cummins)

Rob Harris and Nicola Cummins from Majedie Asset Management presented to the Pension Fund Committee. They were reporting performance since inception (31st August 2009) of 11.7% to 31st January 2012 (versus a return of 9.8% from the FTSE All Share Index). Majedie talked about their defensive positioning throughout 2011 and how that had helped to drive performance. Themes that contributed to performance included:

- Investing in megacaps that have strong balance sheets, strong dividend cover that have low expectations and valuations e.g. GlaxoSmithKline.
- Avoiding the miners (which detracted from performance in 2010). Majedie are concerned about the rate of growth in China and that if we see a slow down there, which Majedie believe will happen, that commodities and miners will feel the repercussions of that.
- Not holding banks, although they have been tentatively adding them to the portfolio more recently.

Detractors from performance include:

- Under represented in 'vice' staples such as tobacco and alcohol. Some of these companies with defensive characteristics are trading at very high valuations with very high margins and little room for margin growth from this point.
- Holding positions in early cyclicals such as ITV and IAG. However, these positions are beginning to pick up now.
- Majedie's macro view is that we have a long term 'deleveraging decade' ahead of us and that in this environment defensive stocks will do well and also those with 'Darwinian' traits. Over the short term business cycle, business opportunities will be available for those investors nimble enough to be able to rotate their portfolio quickly enough, as Majedie believe they can do. Inflation will be the key driver to economic growth and may offer a temporary relief to the developed world consumer.

Cllr Roger Mazillius
CHAIRMAN