



# Minutes

Name of meeting	<b>ISLE OF WIGHT COUNCIL PENSION FUND COMMITTEE</b>
Date and time	<b>18 NOVEMBER 2011</b>
Venue	<b>COUNCIL CHAMBER, COUNTY HALL, NEWPORT, ISLE OF WIGHT</b>
Present	Councillors: Roger Mazillius (Chairman), Peter Bingham, Barry Abraham, Tim Hunter-Henderson  Representatives: Chris Lisher, Admitted Bodies Representative Steve Milford, Unison Representative  Officers: Dave Burbage, Strategic Director of Resources, Jo Thistlewood, Technical Finance Officer and Carol Harrison – Minutes.
Apologies	Councillors: Reg Barry, Vanessa Churchman and Wayne Whittle

---

1. [Minutes of the meeting held on 22<sup>nd</sup> July 2011 \(Paper A\)](#)

RESOLVED :

THAT the Minutes of the meeting held on 22<sup>nd</sup> July 2011 were agreed subject to one amendment which is outlined below.

Amendment page A3 item 3a LGPS Annual Governance Compliance Statement (Paper C)

Cllr Bingham commented that last year we were not fully compliant with everything such as training and questioned whether compliance had improved this year. The Strategic Director of Resources confirmed that there was one issue where we were not fully compliant but that had been dealt with.

2. **Matters Arising from previous meeting 22<sup>nd</sup> July 2011**

- Performance framework – included in the work plan which is on the agenda under item 5.
- Statement for Social, Environment and Ethical Considerations from Fund Managers once this information has been received it will be circulated.

3. **Declarations of Interest**

No matters were declared.

## Reports of the Strategic Director of Resources

### 4. Update on Actuarial and Investment Consultancy Tender Process (Paper B)

At the Committee meeting held on the 18<sup>th</sup> February 2011, it was agreed that the proposals to review the services for actuarial and investment consultancy should be progressed.

The ITT's were sent out at the end of September to the interested parties that had made their way through the scoring of the pre-qualification questionnaire. Three bidders had expressed an interest in both lots and two bidders expressed an interest in only one.

Returns had been received from everybody who was sent a pack and the Strategic Director of Resources and the Technical Finance Officer were assessing which companies would be invited through to do a presentation to the committee on the 14<sup>th</sup> December 2011.

On page two of the report a draft timetable was set out for the presentations on the 14<sup>th</sup> December. This was to be confirmed once the short list had been completed.

A pre-briefing for members of the committee will be held before the evaluation panel.

The Admitted Body Representative asked if he could be advised of, who the companies were that had been asked to bid. The Strategic Director of Resources advised that the pension fund committee members will be informed when the evaluation is completed which should be by the end of next week, but at this stage we are unable to do so.

Cllr Bingham asked about the location for the interviews and the need to be confidential. The Strategic Director of Resources replied that it was planned for them to be held in the Council Chamber but securing the public gallery will be looked at.

It is important that the panel is quorate for the interview and members were asked to note the 14<sup>th</sup> December and times in their diaries.

Cllr Hunter-Henderson requested that the committee members be written to with the date and schedule and ask them to confirm that they will be available to attend.

The Strategic Director of Resources replied that the date is in diaries and when the short list is complete, members will be written to setting out the detail of the day and asking for confirmation of attendance.

#### RESOLVED :

THAT

- (i) The progress on the tender exercise be noted.
- (ii) Once the short list is complete all members are advised of the final interview selection and asked for confirmation of their attendance.

## 5. Pension Fund Committee draft Work plan and Training Schedule (Paper C)

The Pension Fund Committee has undertaken a number of changes including wider terms of reference, open meetings, and the appointment of changed investment management arrangements.

The Committee considered its new meeting arrangements and work plan at its meeting in July 2009.

Arrangements have been working for some two years and over that time there have been many changes in world economies, investment strategies and factors affecting the Local Government Pension Scheme. It is opportune, therefore, to consider the future work plan and what training needs might be required to enable the Committee to discharge its functions.

The Strategic Director of Resources outlined the report and the two items which members were asked to consider. The Committee will be considering as an investment committee a number of issues and items over the next few meetings. A suggested schedule set out in appendix 1, covers the next eight meetings up to November 2013. A report was previously made on timetabling and scheduling the three fund managers so they are not seen all at once, apart from the annual meeting, and that meetings are held to look at the wider aspects of the Local Government Pension Scheme and various aspects around asset allocation etc.

The administration of the Pension Fund and the consequent investment and funding arrangements are complex. In making decisions and in fulfilling its role the committee needs to ensure that it has sufficient expertise to be able to evaluate and challenge the advice they receive, to effectively monitor performance and discharge its compliance and trustee roles. The proposed work plan sets out those issues that will need to be covered.

The second part of the report is related to the investment committee member's individual training needs. It is proposed that a training needs assessment is undertaken in January 2012. Even if members of the committee are fully able and skilled to do the work, there will be issues that will be discussed where the committee would want some information or background or a training seminar approach to look into the issues e.g. asset allocation. It may be useful to have a session about what an issue means before making a decision. The investment committee needs to make sure that they are in a position to be able to challenge advice given and make effective decisions.

Cllr Hunter-Henderson suggested that it would be more effective if training could be incorporated within the committee meetings, starting at 09.00 and have forty five minutes training and then fifteen minutes break and start the committee at 10.00, so that there is plenty of time for committee business and time to do the training as well. This would guarantee to get most of the members in attendance, rather than separate seminars and also it would prove more cost effective.

Following a discussion it was agreed that the training should take place on the same day as the committee.

The Strategic Director of Resources said it was a matter for the committee, but suggested that individual members are contacted with a questionnaire/feedback form, that would be anonymised and would report back to the committee on the 17<sup>th</sup> February together with more detail around the CIPFA Finance Knowledge Skills and Framework. There is good practice around training needs and around the responsibility of the committee to ensure that it keeps up to date. It was proposed that the result of the January assessment is fed into the report in February.

Cllr Bingham commented on the draft training work plan and the end of the administration/elections in May 2013. In particular the code of practice in February is not the right time to do it as there could be a lot of new members appointed. It was agreed to look at the critical issues after the May elections of that year.

The Unison representative asked if the role of trustees would be one of those areas included in the training and who physically would do the training as Schrodgers have done it in the past. The Strategic Director of Resources advised that there are three main areas, i) role of the committee which would include the trustee duties and responsibilities, which we have done ourselves in the past, 2) role of external advisors, particularly as we have new appointments being made and 3) specifically around investments when the committee have to make important decisions on asset allocation for example members need to know more about the options available. As far as who gives the training is concerned this would depend upon the topic. The three investment managers plus the independent advisor would be used and on occasions someone independent of those directly involved with the committee. There also maybe times where there is an investment seminar which is covering particular issues that might be of relevance, and maybe one or two members go on that as well and report back. We would be fairly flexible and try to construct something that is useful and meaningful and use the experts that we have, for instance a bonds presentation from a fund manager to give a more detailed insight.

The Admitted Body representative asked if the non voting representatives would be able to participate in the training. The Strategic Director of Resources agreed that from his point of view it would be useful for observers to be included, and an essential part of sitting on the committee.

Cllr Hunter-Henderson asked about the questionnaire and the need to steer on the side of all members doing all the training.

The Strategic Director of Resources agreed it was not his intention to send a standard questionnaire but would tease out “the necessary issues”. It was also agreed that the questionnaire be agreed by the Chairman before circulation.

RESOLVED :

THAT

- (i) a training assessment questionnaire be circulated in January 2012 for completion and discussion at the February 2012 committee and that this questionnaire be agreed with the Chairman
- (ii) a more detailed report be brought back to the committee around the CIPFA Finance Knowledge Skills and Framework

- (iii) actual training should take place at 0900 – 09.45 on the committee dates
- (iv) the admitted body representative and the union representative should also be invited to the training sessions.

## 6. **Final Audit of Pension Fund Accounts 2010/11 (Paper D)**

This is for information for the Committee to note the outcome of the final audit of the pension fund accounts which were presented at the Annual General Meeting of the Committee in July 2011. At the Audit Committee, at which Cllr Mazillius attended for the presentation of the reports, the Audit Commission presented their findings on the audit and the key items to note are set out in the report. There were six minor issues which they raised as recommendations for improvement in the accounting control of the pension fund accounts and these are set out in appendix 1. They are far less significant than the findings made in previous years for the pension fund audit, which is reassuring, and quite significant progress towards resolving those issues has been made.

The Strategic Director of Resources added that the draft annual audit letter was going to the Audit Committee the following week and the Audit Commission have been very complimentary on the work that has been undertaken in developing and improving the accounts. It was agreed to record the Committee's thanks to Jo Thistlewood, Technical Finance Officer.

### RESOLVED :

THAT the committee note the outcome of the audit and action plan as outlined in appendix 1.

## 7. **LGPS Government Consultation Report (Paper E)**

The Government has been considering and talking with various unions about changes to the Local Government Pension Scheme. This report sets out the proposals as they currently stand. The Department for Communities and Local Government (DCLG) issued a consultation paper on the 7<sup>th</sup> October 2011, giving the opportunity for funds to make alternative proposals. The Local Government Association had submitted alternatives and there have been some through London Boroughs as well. The wider consultation ends on 6<sup>th</sup> January 2012.

The longer term changes to the LGPS are likely to be introduced in 2015. It is suggested that from our Pension Fund point of view that the Committee support the Government's aim of reducing the cost of the LGPS for employers. There is an issue around the impact on the fund if there are a lot of opt outs so again support to be given to proposals to limit the number of employees that decide to opt out of the scheme. It was felt that employees would be more likely to leave the fund if there is an initial increase in employee rates rather than some long term loss in 20-30 years time. Also as these are short term measures with longer term changes to come it would be best to avoid lots of complicated administrative changes at this stage. The government assume that by doing all these things that employer rates will go down and filter through to less cost. There is a proposal that even in-between the triennial revaluation every three years the employer rate can be changed if things are so

healthy. As the changes are only one element of many issues that impact on the funding level it is likely that all these measures will do is stop the rates going up rather than coming down significantly.

A similar report will go to the Council's Employment Committee in November to look at whether they want to make any comments from an employer point of view. This report is focussed for the investment committee about the fund and the impact on the funding level of the fund.

Cllr Bingham, expressed concern about this prospect of fiddling with the employer contributions. As the pension fund is a 40 year investment and recognising that even in the last year how much things can go up and down and felt that the employer contribution should be kept as steady as possible. It would be wrong if we get a couple of good years to drop the rate down for a few years to see it go back up again. It would be a very dangerous thing to do. If the fund is making more than we actually need at one time, that is fine.

The Union representative explained that the union view of these proposals is that they come so soon after the scheme had been changed just a couple of years ago. The major disappointment is that the additional employee contributions effectively won't actually improve the pension fund but just viewed as an extra tax. His view was that so many are upset with these proposals but fully agreed with the points about fiddling with the contribution rates but should keep them stable rather than reduce them. It was stressed that it will be good to encourage choice for employees so that they can balance the need to pay more in return for getting more or choose to pay less with the knowledge of getting less.

Cllr Mazillius expressed the view that the Government and indeed the LGA have supported the review, that in basic financial terms the present financial impact of the pension scheme will in the future become unaffordable. The response from the LGA was very responsible and reflected considerable negotiations with the unions. They have come up with a formulae, that protects the lower paid workforce and in doing that they recognise the dangers to the entire scheme of people opting out in large numbers. They have gone as far as they can in the current financial climate.

Cllr Mazillius expressed the view that the response from the LGA is something he would want to support because it is trying to be fair to the council tax payers and the valued workforce.

Cllr Hunter-Henderson agreed with a lot of what had been said but stressed the importance of the employer contributions not going down unnecessarily. Unfortunately it will mean that some people will have to pay more but that it should be related to the ability to pay as set out in annex D.

The Strategic Director of Resources advised the committee that the response would therefore be the points made in paragraph 26 and to support the proposals from the Local Government Association for the reasons expressed.

RESOLVED :

THAT the response to the consultation be made on the basis of paragraph 26 plus support for the LGA proposals set out in Annex B.

## 8. [LGC Investment Summit Report \(Paper F\)](#)

As in previous years the Chairman and the Strategic Director of Resources attended the annual LGC Summit. The summit is very much local authority based and attended by local authority pension funds and covered up to date issues. In the content of a changing environment it was particularly useful. The report outlined the issues that were covered and those that needed to be included in the work plan for the committee.

The Strategic Director of Resources outlined the items discussed at the seminar.

- Asset allocation and the extent of investment in growth areas e.g. China
- Asset Classes/Management approaches
- Issues for Pension Funds i.e. asset allocation, benchmarks and liabilities
- LGPS
- Admitted bodies employer risks i.e voluntary sector

A lengthy discussion took place on the emerging markets and other countries which are being invested in and also cash flow forecasts.

### RESOLVED :

THAT the report is noted and a report be made to the next committee in February 2012 on the LGPS and impact of changes including maturity and cash flow forecasts and asset allocation and use of benchmarks.

## 9. **Isle of Wight Pension Fund Overview (Paper G)**

The Strategic Director of Resources advised the Committee on overall performance. It is very turbulent times and performance has been varied. To assess performance on a quarterly basis is too short-term but any underlying trends would be highlighted, and we need to be challenging on that. At the November 2012 Committee a formal three year review will be undertaken.

### RESOLVED :

THAT the overall performance be noted.

## 10. [Attendance of Fund Managers](#)

### **Report of Schroders (Edward Chamberlayne, Jonathan Harris and Sue Noffke)**

Sue Noffke set out the performance of the UK equity portfolio. Returns had been negative over the most recent quarter as the market fell sharply as the prospects for economic growth deteriorated in light of the intensification of the Eurozone crisis. The portfolio had lagged the FTSE Allshare index in this environment as Schroders had been expecting a modest recovery in the economy. A UK recession is now more likely and as a result risk had been reduced slightly within the portfolio with, for example, a reduction in the holding in Lloyds Banking Group. The portfolio maintains a modest cyclical bias but is focussed on companies with robust balance sheets and strong market positions.

Jonathan Harris summarised activity on the fixed interest portfolio. The Eurozone crisis had resulted in gilts being seen as a safe haven driving up prices and reducing yields. Corporate bonds had performed less well as investors became increasingly concerned about the economic outlook. The portfolio's relative performance suffered in this environment as it had been felt that the low level of UK government bond yields and the strength of corporate balance sheets would lead to relative out performance by corporate bonds.

Edward Chamberlayne described the progress of the property portfolio where returns had remained robust and ahead of the benchmark. He explained that it is intended that the unit trust in which the Fund is invested will be converted into a Property Authorised Investment Fund (PAIF) in early 2012 enabling the Fund to receive its income before the deduction of tax.

Cllr Roger Mazillius  
CHAIRMAN