MINUTES OF A MEETING OF THE PENSIONS PANEL:
21 NOVEMBER 2005

Councillors *GMMH Rahman Khan (Chair), *E. Prescott (Deputy Chair), *Beacham, *Floyd, Milner, Patel and Reynolds.
[* Members present]

In attendance: Howard Jones* (Advisor to Trustees) and Vince McEntegart (Hymans Robertson).

1. APOLOGIES FOR ABSENCE AND INTRODUCTION:

Apologies for absence were received from Councillor Milner and from Roger Melling.

The Chair requested that a letter be sent to Cllr Milner requesting his presence at the future meeting of Pensions Panel as the Panel has been failing to receive input from the Executive Member for Finance because of his absence

2. URGENT BUSINESS:

There were no items of urgent business.

3. DECLARATIONS OF INTEREST:

No declarations of interest were received.

4. MINUTES:

RESOLVED:

That the Minutes of the meeting held on 10th October 2005 be confirmed and signed as an accurate record.

The Chair mentioned that, in relation to Item 5 of the 10th of October agenda (Reinstating the Rule of 85), he had written to the Leader saying that he is concerned about the solvency of the Fund and requesting that he impress upon Central Government, whenever there is engagement with them, the need to increase the Revenue Support Grant to take account of the extra costs in view of reinstating the 85 year rule.

5. REVIEW OF INVESTMENT STRATEGY:

Before asking the officers to present the report the Chair expressed concern as to how to comply with the legal comments in the report as to how, “act in the best interest of the beneficiaries as a whole” in the absence of any representatives at the Panel meeting from admitted bodies. It was said by the officers that the admitted bodies were present at the Annual General meeting of the Pensions Panel. The adviser to the Trustees advised to take legal opinion on the issue. The Chair drew the attention of officers to the subject.

A representative from Hymans Robertson (Mr Vince McEntegart independent of the scheme actuary) presented the company's report to the Panel.

Mr McEntegart said that the last time the company had been contracted to provide a review of investment strategy they had produced a 50-page report. This time they had produced a shorter document with supporting information provided. The Chair stated that the supporting documents, as mentioned in various sections of the reports were not released to members, and as such Panel Members were not aware if any fundamental information had been omitted. The Director of Finance assured the Panel that the key information were incorporated into the tabled reports, however the chair asked the officers that in future he would like to see reports from Hymans Robertson in full. In addition to the report, the representative of Hymans Robertson tabled a range of graphs, highlighting various points.

The first chart showed the forecast benefit outgoings for current members of the Pension Scheme. This was currently £20m per annum and would rise to a peak of £60m in 2030. After 2030, liabilities to current members of the scheme would start to reduce. However, of course, by that stage new members would have joined the scheme and so the total outflow of benefits would be higher as benefits would have to be paid to new members who had reached retirement age by then.

Combined forecasts for income and outflow were provided to 2023. The income for the scheme would come from 3 sources: standard employer contributions, employer deficit contributions and employee contributions. In April 2005, the actuary set the current rate for employer deficit contributions. Currently the net flow (the difference between the income and outgoing) into the Pension Scheme was positive but, in 2015, it was forecast to become negative if current contribution rates remained the same.

The Panel enquired as to what were the best safeguards the Panel could take so that admitted bodies would not default, because many of them have no tax raising powers of their own.

The Director of Finance advised the Panel that some admitted bodies had bonds to cover the risks. The Panel asked the D.O.F to let the Panel know in due course what safeguard the Panel could have in the case of admitted bodies, which had no bonds or tax-raising powers. The Chair pointed out that we must have proper safeguards to take account of the admitted bodies as a whole.

The Panel was advised that these would be: a higher contribution rate and asking those who had not already done so to take out bonds to insure themselves.

Members were informed that the distribution of assets of the Pension Fund was as follows:

- 70% - equities
- 23% - bonds

- 6% - property
- 1% - cash

Based on this, Hymans Robertson ran 5,000 different simulations as to what the future value of these assets would be. The 'funnel of doubt' increase-sd as time move-sd on and so there was a larger range of possible outcomes.

The employer contribution rate needed by the Fund was modelled. The median figure obtained was 23.9%. There was a 50% chance that the employer contributions after 2007 would have to be higher than the current level.

The risk being run by the investment strategy was estimated as was the 'active risk' being run. The total risk was calculated as 12.6%. Half of this risk was due to the Fund's exposure to UK equities.

In order to reduce risk flowing from investments in UK equities, the suggestion was made that more money could be invested in overseas equities rather than UK ones; that the share of the fund made up of property could be increased from 6 to 10% and that 5% of the fund could be invested in private equities. These measures would reduce the proportion of risk accounted for by the UK stock market.

The strategy of the Fund is based on mainly investing in equities because more than 100 years of capital market data suggests that the best rewards with risks could be obtained from equities.

Demographic assumptions were made by the actuary, taking account of increasing life expectancy. These assumptions, like the assumptions relating to investment performance, are fair estimates – in that they reflect the best knowledge available at the time – but they may prove to be inaccurate.

The Chair stated that the Panel was guided in its decisions by the advice of the internal and external professionals and finally by the Director of Finance. Always the Panel sought optimum returns with reasonable risks.

The Director of Finance stated that he was satisfied with the report. No significant changes in the general balance of funds between the equities (70%) and other investments (30%) were recommended in the report. This was a recommendation the Director concurred with.

The adviser to the Trustees (Mr Howard Jones) stated that it would be desirable for Hymans Robertson to come back to the Panel at a future meeting with evidence that private equity and property would provide a good return and were worth increasing our exposure to. Also, members asked that more information be provided on emerging markets.

Decisions as to the allocation of funds between UK and overseas equities and between public and private equities would be made at a future date.

Both the Chair and the Director of Finance reported that in the various meetings of the panel various fund managers commented that the return from overseas equities were better than the UK equities.

RESOLVED:

1. That the report be noted and the recommendation of the Director of Finance to continue to invest approximately 70% of funds in equities and the remainder in other assets be continued.

2. That Hymans Robertson present their next report at the 2nd February 2006 meeting of Pensions Panel.

3. That Hymans Robertson's next report also include the following items discussed at meeting:

- more analysis and the effect on the risk budget of options for splitting equities between UK and overseas.
- substance for justifying investing in private equity and for considering greater investment in property.
- More information be provided regarding investing in emerging markets, investing in hedge funds and also what the best available safeguards against interest rate risk, inflation risk and other risks are.

6. NEW ITEMS OF URGENT BUSINESS

There were no new items of urgent business.

7. EXCLUSION OF THE PRESS AND PUBLIC:

RESOLVED:

That the press and public be excluded from the meeting for item 10 below as the item contained 'exempt' information as defined in Section 100A of the Local Government Act 1972, namely that they contain terms proposed or to be proposed by or to the Authority in the course of negotiations for a contract for the supply of goods or services.

8. EXEMPT MINUTES:

RESOLVED:

That the exempt minutes of the meeting held on 10th October 2005 be confirmed and signed as an accurate record.

9. NEW ITEMS OF URGENT EXEMPT BUSINESS:

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The meeting ended at 8:30pm

Signed…………………………………………………………………………....

Date………………………………………………………………………...

**COUNCILLOR GMMH RAHMAN KHAN
CHAIR.**