NOTES OF THE PENSION FUND ANNUAL EMPLOYERS AND TRADE UNIONS MEETING HELD AT THE OFFICES OF ASHFIELD DISTRICT COUNCIL, URBAN ROAD, KIRKBY-IN-ASHFIELD, NOTTINGHAMSHIRE ON FRIDAY, 7TH OCTOBER 2005 AT 2.00 PM

Present

Members of the County Council's Pensions Committee

Councillor John Carter (Chair)
Councillor Jim O'Riordan
Councillor Sheila Place
Councillor Darrell Pulk
Councillor David Taylor

Members of the Pensions Investment and Administration Sub-Committees

Mr J Dunstan – Trade Union representative

Mrs B Bradford	)	
Mr T V Needham	)	Pensioner representatives

Councillor Michael Cowan	)	
Mr M Evans	)	Nottingham City Council

Mr J M Corlett	-	Independent Advisor

Representatives of Employers and Trade Unions

Mr S Brown – Ashfield District Council

M Johnson	)	
M Parker	)	Bassetlaw District Council
M Staley	-	Broxtowe Borough Council
M Kimberley	-	Gedling Borough Council
P Cook	-	Mansfield District Council
D Dickinson	-	Newark and Sherwood District Council
A Cross	-	Nottingham City Council
S Graham	)	
R Leek	)	Broxtowe College
J Connelly	-	North Notts College

M Hyland	)	
D Johnson	)	West Notts College
P Wilmot	-	Ashfield Homes
D E Cope	-	Nottinghamshire Deaf Society
M Dodd	-	Catholic Children's Society
P Lewis	-	Nottinghamshire Rural Community Council
S J Broadhead	-	Newark Area IDB
P Buckley	-	Medan Valley Making Places
K Chigwell	-	EM Media
S Newbold	-	Nottinghamshire Probation Board
E O'Riley	)	
D Starr	)	Connexions Nottinghamshire
J Hall	)	
L White	)	GMB
M Weedon	-	CYWU
J Bouchard	-	TGWU
R Buckwell	-	UNISON
W Rickles	-	Nottingham City UNISON retired members
H Parkes	-	Nottingham Trent University UNISON retired members

<u>NOTE</u>:-

The list of those present was taken from attendance sheets signed on the day of the meeting. Apologies are, however, given if all the names are not entirely accurate or representatives did not have a chance to sign these sheets and are, therefore, not shown above.

<u>Representatives of the Director of Resources</u>

Mr P Hurford
Mr A Sumby
Mr J Pearson
Mr N Dowey
Mr A Mamoojee
Mr R Horton

Clerk to the Panel

Mr P Robinson – Chief Executive's Department

Invited Speaker

Mr T Crossley – Local Government Pension Scheme Division, Office of the Deputy Prime Minister.

1. WELCOME AND OPENING REMARKS

Councillor John Carter, Chair of the Pensions Committee, opened the meeting and welcomed representatives to this year's Annual Meeting. He reminded representatives that last year's meeting had considered the proposed changes to the Local Government Pension Scheme (LGPS) that were being put forward at the time. These proposals were controversial and had led to strong representations being made to Government from Trade Unions and some employers, including the Nottinghamshire Pensions Committee. Prior to the General Election earlier in the year these proposed Regulations had been revoked. However, new Regulations were expected concerning a new LGPS for the future and Mr Crossley from the ODPM would be in attendance later in the meeting to report on the latest position. In addition to Mr Crossley's report, further reports would be made on the overall position of the Funds in Nottinghamshire.

The Chair thanked his colleagues who served on the Pensions Committee and its Sub-Committees for their work and, in this connection, reported that there was a vacancy on the Administration Sub-Committee for a representative from Scheduled Bodies and that if any representative was interested in serving in this capacity then he requested that they express this interest to the Clerk.

He reported that apologies for absence had been received from:-

Councillor M J Cox	-	Nottinghamshire County Council Pensions Committee
Mr A Ackerman	-	Trade Union member of Pensions Administration Sub-Committee
T Render	-	Nottingham City Council
A McDonald	-	South Notts College.

Finally, he said that questions on the presentations would be taken at the end of each section on the agenda.

2. MINUTES OF THE ANNUAL MEETING HELD ON 1ST OCTOBER 2004

The Minutes of the 2004 meeting, circulated with the papers for the meeting, were agreed as a true and correct record.

3. PENSIONS FUND ACCOUNTS FOR 2004/05

Mr Hurford referred to the booklet on the Pension Fund accounts and investments for 2004/05 circulated with the agenda for the meeting, which contained the details referred to in his presentation. The main issues that he wished to bring out were under the headings of Fund size/value, surpluses, contribution rates, investment income and expenses.

The close of year had seen the value of the main Fund rise to £1.7 billion, which was the highest ever. Although these figures had to be finally audited, Mr Hurford was not aware of any problems in this respect. The value of the Fund had continued to rise in the current year and currently stood near £1.9 billion.

Mr Hurford reported that the contributions from both employees and employers continued to rise which was good news and was likely to continue into the future. These figures should provide welcome reading for the Actuary. There had been a net addition from transfer values to the Main Fund in 2004/05 which had led to a larger surplus. The opposite was true for the Admitted Bodies Fund where a reduction in transfer values received had let to a reduced surplus from the previous year. In respect of the Main Fund, these figures were very good as the number of contributors into the scheme had fallen slightly and Mr Hurford said that the reasons for this were being investigated.

Investment income in the year had increased and, in this connection, he stressed the stability of this income stream over the years produced mainly from investments in fixed interest, dividends from equities and rents on properties.

Investment management expenses, at 0.19% of the value of the Fund were low compared to other Funds. This was principally due to 40% of the investments being in-house and Schroders' fees being on the low side compared with other investment managers. He added that two new Fund Managers had been appointed in 2005/06 on different terms – a performance fee basis. He reminded the meeting that the target of the in-house investments was to be within 0.3% of the overall index and that for the last ten years the record showed the in-house Fund was plus 0.3% ahead of that index. This he felt was down to the exceptional performance of the in-house team.

Mr Hurford said that in summary, therefore, 2004/05 represented a very good year.

4. INVESTMENT PERFORMANCE IN 2004/5

Mr Pearson reported that in 2004/05 the Nottinghamshire Funds had performed well above the average. The average Fund had made a return of 10.6%, whereas for the Main Fund the figure was 12.2% and for the Admitted Bodies Fund, 11.7%. The main reasons for these figures were because of decisions taken to be overweight in property (a class that had continued to perform well), to be overweight in UK Equities and also to be able to achieve an above average return in this asset class, to be underweight in UK Fixed Interest and Japanese Equities, areas that had performed relatively badly. In respect of property the average Fund invested only 2% in this asset class whereas the Main and Admitted Bodies Funds invested 14% and 16% respectively. The poor figures for Japanese performance suggested to many that consideration should be given to withdrawing from this market entirely, particularly since there had been negative returns over ten years. However, Mr Pearson said that as an extremely large market in the world this area would be difficult to ignore.

In presenting the performance of equity managers against the benchmark, he referred to the exceptional performance produced by Hermes. He also made the point that the figures for 2004/05 for Henderson suggested that a harsh decision had been taken to dismiss them but other figures he presented concerning the historic performance of Henderson suggested otherwise. Similarly, Henderson's fixed interest performance against the benchmark was also poor and the Company had been replaced.

Mr Pearson concluded his presentation by reporting that the two Funds' performance in 2004/05 was in the top quartile of performance as measured by Russell Mellon. He also set out the figures for performance over five and ten years.

The following questions were raised on this presentation as under:-

a) Clarification was sought on the green/ethical approach taken in respect of the Property Portfolio – Mr Pearson assured the meeting that the property manager undertook a full environmental survey of every property owned on behalf of the Funds and was always looking to upgrade the properties to comply with changes in legislation, for example disability discrimination.

b) Would it be sensible to increase the passive management of Funds by moving more in-house at the expense of the employment of active fund managers to whom a premium was paid for similar performance to that of the in-house fund? – in response Mr Pearson said that the current position reflected the Funds' view that it was in the best interests of members to have a diversification of their investments and that this was a view that had been supported by the Actuary.

5. NOTTINGHAMSHIRE PENSIONS ADMINISTRATION SERVICE – COMMUNICATION STRATEGY

Mr Mamoojee, the newly appointed Pensions Manager, presented proposals which he hoped to introduce in the coming months to develop more effective communications arrangements with the various groups associated with the Scheme. The groups he wished to provide a better service to included the following (with examples of how improvement was to be delivered):-

- Scheme members – regular publications, benefit illustrations, literature, pay advices, pensions helpline and pension roadshows

- Prospective Scheme members – Scheme booklet, Website development, non-joiner campaigns, induction courses

- Scheme employers – dialogue meetings, technical newsletters, employers' guides, employer forums and pre-retirement courses.

He also reported on the review of his section that he intended to undertake to be better placed to deliver the communications strategy referred to above.

He commented on the Other Bodies, such as National Information Forum, Annual Pensions Managers' Conference and East Midlands Pensions Officer Group, whose expertise he would draw upon, again to assist delivery of the proposed strategy.

Proposed developments would always be referred to Trustees for a view, or decision, as appropriate. The current proposals would be reported to an early meeting of the Pensions Administration Sub-Committee.

The following questions/comments were raised in connection with this presentation as under:-

a) Some retired members felt that they had not been included in the strategy proposed – in response, Mr Mamoojee said that he would be pleased to arrange a meeting with retired members to discuss issues relevant to them.

b) When would benefit illustrations for 2004/05 be available? – Mr Mamoojee said he expected that these would be available towards the end of this calendar year.

c) Was it possible to provide a mechanism for more than periodic pay advices to pensioners? – Mr Mamoojee said that this could be reviewed.

d) The problem of some employees not receiving copies of Nest Egg from some employers was raised again – the Chair and the Officers referred to the historical situation where, in certain circumstances, some employers had to be relied on to undertake delivery; although they felt that the situation had improved they would again make efforts to ensure that all pensioners and members of the Scheme received Nest Egg.

e) Some representatives felt that the recent edition of Nest Egg had contained some misleading information on the benefits associated with AVCs – in response, Officers said they would rectify this matter in a future publication.

The meeting was adjourned from 3.10 pm – 3.25 pm. On resumption presentations were made as follows.

6. ACTUARIAL VALUATIONS – PAST, PRESENT AND FUTURE

Mr Sumby reminded the meeting that the last valuation had been concluded in March 2004 when the overall funding levels had been assessed at 73% for the Main Fund and 80% for the Admitted Bodies Fund, which needed to be compared with the figures for the review before that in 2001 of 91% and 101 % respectively. The next Actuarial Valuation was due to take place in March 2007. The 2004 valuation did, however, make certain assumptions, the most significant of which concerned the abolition of the “85 year rule”. However, as had been reported earlier in the meeting these Regulations had now been revoked so that the assumption concerning this aspect on which the 2004 valuation had been based was no longer applicable. This meant that the savings which were to be reflected in employer contribution rates had now been “lost”. The impact of this had been assessed at around £400 million to pension funds nationally. In the circumstances, it had been necessary for an interim actuarial review of the situation to be undertaken.

This review, rather than a valuation (as valuations were binding on parties and judged not to be appropriate in this fluid situation) had resulted in a calculation that the Nottinghamshire Funds would require additional income of £8 million in 2005/06 and £10.3 million in the long term to regain the position prior to revocation. Mr Sumby said that since producing this particular information he had also been able to produce more detailed information on an individual authority basis and this information on revocation costs by employer was available at the meeting.

7. THE LOCAL GOVERNMENT PENSION SCHEME – WHERE WE ARE GOING AT LAST? – PRESENTATION BY TERRY CROSSLEY

Mr Crossley reported on the background to the LGPS in that it was a public service, final salary funded, occupational pension scheme. It was sponsored by Government, managed by local government but, ultimately, guaranteed by taxpayers. In the circumstances, therefore, it was politically a very sensitive issue. The scale of the Scheme meant it was big business in every respect.

He particularly stressed the figures concerning current contributions - £3.21 billion from employers and £1.33 billion from employees.

The policy of Government in this area was to provide a good quality occupational pension scheme for public sector workers which was affordable, sustainable and acceptable to taxpayers. Over the years a number of factors had combined to make this objective difficult to deliver namely, people living longer, stock market volatility, the high cost for employers/providers and the social and political sensitivities around public and private sector provisions. The proposed solution put forward by the ODPM was in two phases; firstly, to deal with the costs issue in the near future and secondly to put issues of affordability and sustainability alongside the need to modernise the LGPS from April 2008.

Following the revocation of the Regulations referred to by previous speakers, a Tripartite Committee had been established consisting of the ODPM, Local Government Employers and Trade Unions to take this matter forward. The focus of proposals in the first meetings of the Tripartite Committee had been to resolve issues on near future costs in autumn 2005 so that any agreement could be included in the Local Government Finance Settlement for 2006/7 and beyond.

Long term changes, with effect from 2008, will also take into account evidence and views such as the Turner Commission and the Public Sector Forum on unfunded schemes.

The following questions/comments were raised following the presentation:-

a) The point was made that, in general, local authority salaries were less than elsewhere in the economy but that this situation had traditionally been offset by the pension provision and also it was questioned in why it was necessary to remove the 85 year rule earlier than required by legislation (in October 2006)? The general thrust of this question was that it was unfair to eradicate benefits – in response, Mr Crossley said that the proposals were about the long term affordability of the Scheme and any Council Tax rises that would be needed to meet increased costs; in this connection it had to be remembered that Council Tax increases were extremely unpopular. He added that Scheme members would lose nothing up to the point of change and that the thrust of proposals was to affect expectations thereafter.

b) Reference was made to the positive report earlier in the meeting, particularly with regard to the 7.7% return on investments over ten years and the excess of income over expenditure in the Funds. These figures suggested that there were no long term problems with the Funds and, in these circumstances, why do employers contributions have to increase? – Mr Hurford and Mr Sumby commented that the point was well made but that the counterpoint that was continually raised by the Actuary and others was about increased life expectancy of pensioners which meant, following this argument, that contributions had to increase.

c) It was suggested that the consultation undertaken by Government nearly always culminated in the Government's proposals being adopted not-withstanding any comments made. – Mr Crossley commented that as he had indicated the issue was about politics in a significant policy area and that Government was worried about the future of LGPS. In this connection, he thought it worth pointing out that there were no proposals yet to end the final salary nature of the scheme and move to, say, career averaging arrangements.

d) Would not a lot of the issues debated at the meeting concerning the future of the LGPS and its affordability be solved by making membership compulsory? - Mr Crossley conceded that many pensions professionals agreed with this view but that compulsion was just not a politically acceptable option; it was a matter for Funds to work harder to increase membership.

There being no further questions, the Chair thanked Officers for their presentations and for both their work and that of their colleagues over the last year. He also thanked representatives of Trustees, employers, trade unions, other organisations and particularly Mr Crossley (for undertaking the journey from London to be at the meeting) for their attendance and closed the meeting at 4.30 pm.

CHAIR