MINUTES OF A MEETING OF THE PENSIONS COMMITTEE
Town Hall, Main Road, Romford
26 March 2013 (6.30 - 10.16 pm)

Present:

COUNCILLORS

Conservative Group	Melvin Wallace (Chairman), Eric Munday, Roger Ramsey and Frederick Thompson (In place of Becky Bennett)
Residents' Group	Ron Ower
Labour Group	Denis Breading (In place of Pat Murray)
Trade Union Observers	John Giles, UNISON and Andy Hampshire, GMB

Apologies were received for the absence of Councillors Becky Bennett and Pat Murray, and Marian Clay, Admitted/Scheduled Bodies Representative.

The Chairman reminded Members of the action to be taken in an emergency.

30 MINUTES OF THE MEETING

The minutes of the Special meeting held on 27 November, 2013 and of the meeting held on 12 December, 2013, including the exempt minutes for both meetings, were agreed as a correct record, and signed by the Chairman.

31 AUTOMATIC ENROLMENT

Officers provided the Committee with an update on progress in implementing the new pension reform legislation covering automatic enrolment. Previously the Committee had been advised that the staging date for Havering was 1st March, 2013 and it was anticipated that the Council would be able to meet the deadline. Unfortunately the Council's Financial system (Oracle) had to be updated with a required legislative system patch to ensure that it complied with the complexities of automatic enrolment, in identifying those employees meeting the necessary criteria and reporting accordingly. The patch had been applied and tested, unfortunately it did not deliver the desired results, and a decision had been made to delay the staging date until 1 May 2013.

The Committee were given an assurance that testing on the patch had now given positive results and therefore officers did not anticipate any problems with meeting the revised date.

The Committee were aware that some local authorities had taken the decision to defer implementation until 2017 and officers were asked why the Council had not taken that decision. Officers explained that in deferring the implementation other Councils were only reducing the impact of the implementation. Deferment only affected current employees, authorities still needed to introduce auto enrolment for new employees. Other authorities have made the decision because the system imposes an administrative burden and they believe that by 2017 the issue of auto enrolment will be removed from the statute book.

The Committee **noted** the report.

32 **REVIEW OF COMMUNICATION STRATEGY**

The Committee received a report setting out the Pension Fund's communications priorities and the proposed revised Communication Strategy for 2013-2015. Officers had reviewed how well the Council had adhered to the existing strategy and what had been achieved and what was outstanding. Officers confirmed that all the Communication Responsibilities set out in the 2010/12 Communication Strategy had been achieved.

The proposed draft strategy covered three key areas which would allow the Pension Administration Team to 'Get ready for new challenges' in order to meet four areas of significant challenge during the period of the strategy. These four areas were:

- Automatic Enrolment;
- The introduction of the new CARE pension scheme from April 2014;
- The Triennial Valuation; and
- Procuring new pension software in readiness for the 12014 pension changes.

The Committee agreed the revised Communication Strategy 2013-2015 as attached to the report, including the communication priorities identified.

33 **PUBLIC SERVICE PENSIONS BILL**

The Committee considered a report on the draft Public Service Pensions Bill which was progressing through Parliament and which could have significant implications for the London Borough of Havering Pension Fund and the Pension Committee.

Officers identified a number of key risks, including:

- Valuations: There was an overall risk to scheme affordability and the setting of contribution rates, which could be flawed due to the Treasury setting the specification on data, methodology and assumptions to be used in valuations. The problem is that by everything being set centrally the local implications will be lost.

- Scheme closure: The Bill lacked clarity on how the closure of the existing schemes would operate. Closure of a Local Government Pension Scheme could lead to demand for deficits to be paid off immediately, leaving some employers in severe financial hardship.
- Retrospective changes: The bill did allow for revaluation to lead to a decrease in the level of benefit for scheme members, although controls around this had been included in the Lords amendments.
- Communications: The communication challenge of explaining the impact of moving from a final salary linked pension scheme to a Career Average Revalued Earnings (CARE) scheme with deferment of existing benefits.

Officers advised the Committee that the Bill sets out new, stronger, provisions for the overall governance and regulation of public sector pension schemes. Each scheme would have its own ‘manager’ with responsibility for scheme administration. That manager could be an individual, e.g. the Group Director of Finance & Commerce, or it could be the Pensions Committee or the Council as a whole, the legislation left a substantial degree of latitude which would probably be defined more by guidance and regulations. There would also be a Pension Board whose task would be to assist the manager. Half of the members of the Board would be representatives of the employer(s) and half would be representatives of scheme members.

The Committee asked officers to prepare a briefing for the borough MP’s on the issues raised particularly, valuations and scheme closure.

The Committee were advised that the Government was calling for evidence to support a proposal for a Collective Investment Fund. In London there were already talks of merging individual schemes into 5 large schemes. A report would be submitted to the next meeting.

Additionally the Committee **noted** the report and **agree** to receive further updates as and when the Bill is enacted and further guidance was issued, together with a briefing report on the proposed new Local Government Pension Scheme and its impact.

34 EXCLUSION OF THE PUBLIC

The Committee resolved to excluded the public from the meeting during discussion of the following item on the grounds that if members of the public were present it was likely that, given the nature of the business to be transacted, that there would be disclosure to them of exempt information within the meaning of paragraph 3 of Schedule 12A to the Local Government Act 1972 which could reveal information relating to the financial or business affairs of any particular person (including the authority holding that information) and it was not in the public interest to publish this information.

35 **PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 31 DECEMBER 2012**

Officers advised the Committee that the net return on the Fund's investments for the quarter to 31 December 2012 was 3.0%. This represented an out performance of 0.7% against the combined tactical benchmark and an outperformance of 2.5% against the strategic benchmark. The overall net return for the year to 31 December 2012 was 10.5%. This represented an out performance of 1.3% against the annual tactical combined benchmark and an out performance of 4.4% against the annual strategic benchmark.

The Committee were advised that the global economic data showed signs of stabilisation, particularly in the US and China; the Eurozone economy remained mixed. The re-election of President Obama in November offered some clarity politically but markets fell sharply in the immediate aftermath as the focus shifted to the approaching 'fiscal cliff' debate. The fourth quarter was positive for UK equities.

Index linked gilts returned 4.3% during the quarter, reflecting increased demand for longer dated bonds and outperformed fixed interest gilts.

1. Hymans Robertson (HR)

HR advised the Committee that despite unresolved difficulties associated with the financial crisis, in particular the debt 'overhang' in the US and Europe, equity markets performed well during the quarter. This positive tone contrasted with notes of caution regarding the global economy.

Forecasts for global economic growth in 2013 were cut by a number of respected agencies. Policy makers made conciliatory comments and prepared for the worst. In the US, the central bank announced its intention to keep short-term interest rates at close to zero until specific economic criteria were met and extended the programme of asset purchases which started in November 2008.

In the UK, Chancellor George Osborne had presented the autumn statement in early December. Due to lower than expected economic growth, austerity measures were to be prolonged to at least 2018 and the timescale for debt reduction extended. During the quarter, both the Bank of England and the Office for Budget Responsibility had cut their forecasts for economic growth for both 2012 and 2013. The Governor of the Bank of England had forecast a period of persistently low economic growth, citing problems in the Euro zone as a contributory factor.

Key events during the quarter were:

Global Economy

- UK had emerged from recession, as the economy expanded during the three months to end September, although the Euro zone returned to recession;
- The pace of growth of Chinese economy had edged higher after nearly two years of slowdown;
- Short-term interest rates in UK, US and Euro zone were held at current levels;
- European finance ministers had agreed a new supervisory regime for Euro zone banks;
- Standard and Poors had placed UK's AAA credit rating on negative outlook.

Equities

- Rosneft (Russia) had replaced Exxon Mobil as the world's largest publicly traded oil producer;
- The strongest sectors relative to the 'All World' Index were Financials (+5.4%) and Industrials (+2.9%);
- the weakest were Telecommunications (-6.7%) and Technology (-6.0%).
-

Bonds

- The ECB announced a bond purchase programme to assist countries struggling to raise funds;
- Index linked gilts (+4.3%) had outperformed fixed interest gilts (-0.4%) by a significant margin.

In the US, the administration had avoided the immediate threat posed by fiscal 'cliff' but difficult budget negotiations lay ahead. Spending cuts were inevitable and would be decided by a complex mix of political and economic criteria.

The Committee were advised of the performance of the various Investment managers during the quarter. Further details were available in the confidential minutes.

2. Baillie Gifford (BG)

Fiona MacLeod, Client Services Manager and James Mowat, Client Services Director attended the meeting to deliver a presentation on the performance of the funds BG managed on the Pension Funds behalf. BG advised the Committee that since 28 February 2013 when the value of the fund stood at £74.5m it had increased in value to £75.6M.

The target for BG was to outperform the MSCI AC World Index by 2.0 – 3.0% per annum (gross) over rolling five year periods. Baillie Gifford had been appointed on 25 April 2012 and since inception to 31 December 2012 had outperformed the benchmark by 0.1%, a return of 5.5% (net) compared to the benchmark of 5.4%

Fiona and James proceeded to give the Committee a brief preview of the portfolio and how this was managed.

The Committee **noted** the presentation and thanked Fiona and James for their presentation.

3. Standard Life (SL)

Dale MacLennan, Investment Director, Global Client Relationship Management attended the meeting to deliver the presentation. He tendered apologies on behalf of his colleague David Cumming who was unwell.

At the end of December 2012 the value of the fund managed by Standard Life stood at £78.8m, by the end of January 2013 it had risen to £84.4m. The most significant growth had been in UK Equities. By the date of the meeting the fund had seen a further rise to approx. £88m.

Dale informed the Committee of the decisions taken by Standard Life to manage the fund and advised that in his opinion whilst momentum had slowed down at the back end of 2012, he believed it was picking up again this year.

The Committee **noted** the report and thanked Dale for his presentation.

4. Royal London Asset Management (RLAM)

Paul Rayner, Head of Government Bonds and Fraser Chisholm, Client Account Manager delivered the presentation on behalf of RLAM. The objective for the fund was to outperform the composite benchmark by 0.75% p.a. (net of fees) over rolling three year periods.

At 30 September 2012 the value of the fund stood at £91.69m, this had risen to £94.83m by 31 December 2012. In the last 3 year period the manager had outperformed the objective by 0.7%.

The Committee **noted** the report and thanked Fraser and Paul for their presentation.

36 REVIEW OF THE STATEMENT OF INVESTMENT PRINCIPLES

The Committee were reminded that the LGPS (Management and Investment of Funds) Regulations 2009 state that an administering authority must prepare, maintain and publish a written statement of the principles governing its decision about the investment of fund money (this is known as Statement of Investment Principles).

Further to decisions taken at earlier meetings officers had produced a revised Statement of Investment Principles for approval by the Committee. In addition officers had produced a report on the Fund's compliance against the Myner's Investment principles. The main changes in the Statement related to allocation across Asset classes. The proposed changes were as follows:

Asset class	Current Allocation	Target allocation
UK/Global Equity	55%	24%
Multi Asset strategies	-	35%
Absolute Return strategies	15%	15%
Property	10%	6%
Gilts/Investment grade bonds	20%	20%

Officers informed the Committee that the Fund was 99% fully compliant with the Myner's principles. The one exception was that the Annual Report did not include an overall risk assessment. This would be addressed at a later meeting when proposals will be brought forward to the Committee for consideration.

The Committee were provided details of a proposed timetable and a proposal to rebalance equity exposure. The decisions of the Committee are set out in the exempt minutes.

The Committee:

1. **Agreed** to the proposed amendments to the SIP: and
2. **Agreed** to the administrative authority's position in respect of reporting compliance against the Myner's Investment principles.

Chairman