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Havering
LONDON BOROUGH

PENSIONS COMMITTEE AGENDA

7.30 pm	Wednesday 26 June 2013	Town Hall, Main Road, Romford

Members 7: Quorum 3

COUNCILLORS:

Conservative Group (4)	Residents' Group (1)	Labour Group (1)	Independent Residents' Group (0)
Melvin Wallace (Vice-Chair) Becky Bennett (Chairman) Steven Kelly Roger Ramsey	Ron Ower	Pat Murray	TBA

Trade Union Observers

(No Voting Rights) (2)

John Giles, (Unison)
Andy Hampshire, GMB

Admitted/Scheduled Bodies Representative

(Voting Rights) (1)

Marilyn Clay

For information about the meeting please contact:
James Goodwin 01708 432432
email: james.goodwin@havering.gov.uk

AGENDA ITEMS

1 CHAIRMAN'S ANNOUNCEMENTS

The Chairman will announce details of the arrangements in case of fire or other events that might require the meeting room or building's evacuation.

2 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) – receive

3 DISCLOSURE OF PECUNIARY INTERESTS

Members are invited to disclose any pecuniary interest in any of the items on the agenda at this point of the meeting.

Members may still disclose any pecuniary interest in any item at any time prior to the consideration of the matter.

4 MINUTES OF THE MEETING (Pages 1 - 14)

To approve as correct the minutes of the meetings held on 26 March and 30 April 2013 and authorise the Chairman to sign them.

5 EXTERNAL AUDIT PLAN 2012/13 PENSION FUND AUDIT (Pages 15 - 40)

Report attached.

6 PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 31 MARCH 2013 (Pages 41 - 54)

Report attached.

7 URGENT BUSINESS

To consider any other item in respect of which the Chairman is of the opinion, by reason of special circumstances which shall be specific in the minutes that the item should be considered at the meeting as a matter of urgency.

8 EXCLUSION OF THE PUBLIC

To consider whether the public should now be excluded from the remainder of the meeting on the grounds that it is likely that, in view of the nature of the business to be transacted or the nature of the proceedings, if members of the public were present during those items there would be disclosure to them of exempt information within the meaning of paragraph 1 of Schedule 12A to the Local Government Act 1972; and, if it is decided to exclude the public on those grounds, the Committee to resolve accordingly on the motion of the Chairman.

9 EXEMPT MINUTES

To approve as correct the exempt minutes of the meetings of the Committee held on 26 March and 30 April 2013.

10 PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 31 MARCH 2013

To consider the exempt report from Hymans Robertson and receive presentations from the following Fund Managers:

- UBS
- Ruffer
- Baillie Gifford.

Ian Burns
Acting Assistant
Chief Executive

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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.

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Chairman

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MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Town Hall, Main Road, Romford
30 April 2013 (7.30 - 9.20 pm)

Present:

COUNCILLORS

Conservative Group	Melvin Wallace (Chairman), Roger Ramsey and Frederick Thompson (In place of Becky Bennett)
Residents' Group	Clarence Barrett (In place of Ron Ower)
Labour Group	Pat Murray
Trade Union Observer	John Giles

Apologies were received for the absence of Councillors Rebbecca Bennett, Eric Munday and Ron Ower, and Marian Clay and AndyHampshire.

37 **INVESTMENT IN LOCAL INFRASTRUCTURE ASSETS**

Back in March the Committee approved the revised Statement of Investment Principles (SIP). During discussion of the SIP the Committee indicated a desire to invest in local infrastructure and asked officers to produce a report on the available options.

The Council had faced significant budgetary pressures in the wake of the economic downturn. These pressures were likely to continue but the Council had been keen to consider ways in which the Pension Fund and local residents could both gain from increased local investment. If additional Council contributions to the Pension Fund could be directed towards investment in local amenities and facilities there may be benefits to all concerned.

For example, if the Council made an increased contribution to the Pension Fund which was invested by the Fund in Private Housing development or Commercial Property the following benefits would be generated for each party:

<u>Pension Fund</u>

- Increase in Pension Fund asset valuation
- Revenue stream from rental income

<u>the Council</u>

- Increase in Council Tax base, Business Rates or New Homes Bonus
- Increase in local jobs and services
- Potential reduction in PF contribution rates as the net pension liability reduces.

Recent changes in the LGPS (Management and Investment of Funds) Regulations enable funds to hold up to 30% of its assets in infrastructure.

The Committee were informed that provision had been made in the Medium Term Financial Statement (MTFS) for an increase in the council's contributions.

The Committee:
1. Agreed, in principle, to making investment in Local Infrastructure;
2. Requested officers to develop proposals for the creation of an infrastructure asset class;
3. Noted that the governance arrangements relating to the operation of an infrastructure class would need to be developed in order to meet both statutory requirements and local management needs;
4. Noted that further reports would be required to approve changes to the Investment Strategy and Governance arrangements if we wished to develop this option.

38 **CONSULTATION ON COLLECTIVE PENSIONS INVESTMENT FUND**

Officers advised the Committee that the Society of London Treasurers (SLT) had recently considered a report from PricewaterhouseCoopers (PWC) regarding increased co-operation across the London Boroughs on pensions and in particular pensions investment.

The PWC Report set out a proposed structure whereby each of the participating Boroughs would retain autonomy in asset allocation and funding strategy. There would be a central entity, or Oversight Agent, working within new governance arrangements, that established a choice of funds within each asset class, selects fund managers and negotiates and monitors fee and service levels. The participating boroughs would set their asset allocation, choosing between wide ranges of Investment Funds offered by the fund.

However, for this model to work boroughs needed to be willing to consider a collective fund and SLT were checking to see what the appetite was amongst the respective funds before considering further work.

The key advantages of Collective Investment Funds as identified by SLT were as follows:-

- It preserved individual boroughs' decisions on funding strategy and asset allocation;

- It enabled the boroughs with lower performance access to better performing fund managers;
- It would provide an investment platform where the boroughs could aggregate investment options making it more attractive for fund managers, hopefully reducing fees;
- It would provide a range of not only asset classes but also different styles of managers to meet requirements of boroughs;
- It would demonstrate that Funds were capable of working together.

SLT had identified some possible down sides

- It required a number of Funds to be prepared to join and ideally some of the better performers;
- There would be the normal cost of changing fund managers, but hopefully less than a number of Boroughs changing individually;

The author of the PWC report was in attendance and ran through the basis of the report, answering questions as they were raised.

The Committee expressed a number of reservations about the proposal and asked officers to draft a response to SLT which should be approved by the Chairman.

39 **AUTOMATIC ENROLMENT**

Previously the Committee had been advised that it had been necessary for the Council to delay the commencement of automatic enrolment because of problems with Oracle. Officers now advised the Committee that as from tomorrow Oracle would be fully compliant and the Council would be meeting its revised commencement date.

Following the Government's acceptance of the Lord Hutton report on pension's reform, several initiatives have been instigated under Workplace Pensions Reform. The Pensions Regulator together with the Department of Work and Pensions are overseeing the changes to the Pensions Act 2011, which requires all employers to offer a pension scheme to their employees, to automatically enrol those who meet certain criteria on the employers staging date, monitor other employees to ascertain when they meet the set down criteria, and to re-enrol those who opt out of the scheme every 3 years.

The legislation is now being reviewed with a view to amendment and a consultation document has been issued, with a response date of 7 May 2013.

The consultation document included 10 proposed changes to the current legislation, highlighting the issues, the proposals and a set of questions following each proposed change topic. The proposals were around redefining certain technical terms and time periods but also included the potential for easements for employers providing good pension schemes.

Officers had provided a set of responses to the consultation and the Committee agreed that these should be submitted to the Pensions Regulator.

40 **LGPS 2014 - CONSULTATION ON SCHEME REGULATIONS AMENDMENTS**

The Committee received a report on consultation on pension reform legislation covering the Local Government Pension Scheme 2014. The report focussed on core elements relating to membership, contributions and benefits.

The consultation fell into three parts, with the response date for Part A being 3 May 2013, and Parts B and C being 24 May 2013. Having considered the suggested responses to Part A the Committee:

1. Approved the responses to Part A as set out in the Appendix to the report; and
2. Delegated approval of responses to Parts B & C to the Lead Officer, Andrew Blake-Herbert and the Chairman of the Pensions Committee.

41 **PUBLIC SERVICE PENSIONS ACT 2013**

The Committee were advised that the above Act had received Royal Assent last week and a full report would be submitted to the next meeting of the Committee.

42 **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.

43 **LOCAL INFRASTRUCTURE INVESTMENT OPPORTUNITES**

The Council had commissioned PricewaterhouseCoopers (PWC) to look at the opportunities available for the Pension Fund to invest in Local Infrastructure. The Committee were advised that 3 other London Boroughs were considering similar ideas and Strathclyde Pension Fund had recently made an announcement.

Any scheme must meet the following objectives:

- Benefit members, with a requirement that any investment must be based upon robust investment principles and be able to deliver added value for members;
- Generate a level of return that is commensurate with the degree of risk it is exposed to and creates value to the wider portfolio;
- Create regular income streams to help meet the cash outflows of the pension fund; and
- Is predominantly local investment, initially defined as investment within the borough?

A detailed discussion took part on the options available and these are set out in the Exempt minutes.

44 **UBS TRITON FUND**

Officers provided an update on the situation with the UBS Triton Fund.

The Committee noted the oral update.

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Chairman

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Agenda Item 5

Havering
LONDON BOROUGH

PENSIONS COMMITTEE **26 June 2013**	**REPORT**

Subject Heading:	**EXTERNAL AUDIT PLAN 2012/13 PENSION FUND AUDIT**
CMT Lead:	Andrew Blake Herbert
Report Author and contact details:	Contact: Debbie Ford Designation: Pension Fund Accountant Telephone: (01708) 432569 E-mail address: Debbie.ford@havering.gov.uk
Policy context:	To note the External Audit plan for the Pension fund audit.
Financial summary:	This report sets out the planned area of work for the Pension Fund Audit. The indicative fee is £21,000.

The subject matter of this report deals with the following Council Objectives

Clean, safe and green borough	[]
Excellence in education and learning	[]
Opportunities for all through economic, social and cultural activity	[]
Value and enhance the life of every individual	[X]
High customer satisfaction and a stable council tax	[]

SUMMARY

The attached report, Appendix 1, advises the Pensions Committee of the proposed 2012/13 External Audit Plan for the Pension Fund.

RECOMMENDATIONS

1. To note the auditors proposed scope and confirm that the committee is comfortable with the audit risks and approach.

2. Note the matters relating to fraud, and

3. Approve the proposed audit fees for the year.

REPORT DETAIL

PricewaterhouseCoopers (PwC) are the current External Auditor for the London Borough of Havering, as appointed by the Audit Commission. This report deals with the audit of the Pension Fund.

This plan has been developed with the assistance of Council officers.

The attached plan contains the following sections to outline the External Auditors planned approach:

- Introduction and purpose of the audit plan
- Risk Assessment
- Audit approach
- Risk of Fraud
- The audit team and communications
- Timetable
- Audit Fees.

The broad approach to the audit work is set out in pages 4 and 5.

As set out in the Plan, the overall direction of the Fund's Investment Strategy is delegated to the Council's Pensions Committee. The Council acts as the administering authority for the Fund, and as such is accountable for the stewardship of the Fund. It is PwC's responsibility to carry out an audit in accordance with the Audit Commission's Code of Audit Practice.

IMPLICATIONS AND RISKS

Financial implications and risks:

The attached plan reflects the fee for the Pensions Fund element of the 2012/13 audit and is set out below:

Element	2012/13 Fee £	2011/12 Final Fee £
Pension Fund	21,000	35,000

The indicative fee is based on the expectation that audited bodies are able to provide the auditor with complete and materially accurate financial statements, with supporting working papers, within agreed timescales.

The 40% savings reflect the outcome of the Audit Commission's procurement process to outsource the work of the audit practice, awarding five-year contracts to four private sector firms and their own internal efficiencies.

The cost of the audit fees will be met from the pension fund.

There are no other financial implications or risks arising directly from this report.

Legal implications and risks:

None arising directly from this report

Human Resources implications and risks:

None arising directly from this report

Equalities implications and risks:

None arising directly from this report

BACKGROUND PAPERS

London Borough of Havering Pension Fund 2012/13 Audit Plan – PricewaterhouseCoopers

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London Borough of Havering Pension Fund

DRAFT Audit Plan 2012/13

Prepared for the Pension Committee

26 June 2013

Members of the Pension Committee
London Borough of Havering
Town Hall
Main Road
RM1 3BB

Ladies and Gentlemen,

We are pleased to present our Audit Plan for the London Borough of Havering Pension Fund, which shows how your key risks and issues drive our audit and summarises how we will deliver. We look forward to discussing it with you so that we can ensure we provide the highest level of service quality.

If you would like to discuss any aspect of our Pension Audit Plan please do not hesitate to contact any of the engagement team (contact details provided on page 12).

Yours faithfully,

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP, 7 More London Riverside, London SE1 2RT
T: +44 (0) 20 7583 5000, F: +44 (0) 20 7212 7500, www.pwc.co.uk

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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body and on the Audit Commission's website. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

Introduction

The purpose of this plan

Our audit plan has been prepared to inform those responsible for the governance of the London Borough of Havering Pension Fund ("the Fund") about our responsibilities as the external auditors of London Borough of Havering ("the Authority") and how we plan to discharge them.

The London Borough of Havering acts as the administering authority for the Fund, and as such is accountable for the stewardship of the Fund. The responsibility for this stewardship is discharged on a day to day basis by the Pension Committee ("the Committee"). It is our responsibility to carry out an audit in accordance with the Audit Commission's Code of Audit Practice ("the Code").

This plan:

- is required by International Standards on Auditing (ISAs);
- sets out our responsibilities as external auditor under the Audit Commission's requirements of the Authority's Pension Fund;
- gives you the opportunity to comment on our proposed audit approach and scope for the 2012/13 audit;
- records our assessment of audit risks, including fraud, and how we intend to respond to them;
- tells you about our team; and
- provides an estimate of our fees.

We ask the Committee to:

- consider our proposed scope and confirm that you are comfortable with the audit risks and approach;
- consider and respond to the matters relating to fraud; and
- approve our proposed audit fees for the year.

Our work in 2012/13

We will:

- audit the statutory financial statements of the Fund assessing whether they provide a true and fair view;
- check compliance with International Financial Reporting Standards (IFRS);
- check compliance with the code of practice on local authority accounting;
- check whether the other information in the Annual Report is consistent with the Fund's financial statements; and
- bring any significant control issues or other points of interest to the attention of management and the Committee as soon as practicable throughout the year.

Risk assessment

We considered the Authority's operations and assessed:

- risks that need to be addressed by our audit;
- how your control procedures mitigate these risks; and
- the extent of our financial statements and value for money work as a result.

Our risk assessment shows:

- those risks which are significant, and which therefore require special audit attention under auditing standards; and
- our response to significant and other risks, including reliance on internal and other auditors, and review agencies, if applicable.

Responsibilities

Officers and members of each local authority are accountable for the stewardship of public funds. It is our responsibility to carry out an audit in accordance with the Audit Commission's Code of Audit Practice ("the Code"), supplemented by the Statement of Responsibilities of Auditors and of Audited Bodies. Both documents are available from the Chief Executive or the Audit Commission's website.

It is your responsibility to identify and address your operational and financial risks, and to develop and implement proper arrangements to manage them, including adequate and effective systems of internal control. In planning our audit work, we assess the significant operational and financial risks that are relevant to our responsibilities under the Code and the Audit Commission's Standing Guidance. This exercise is only performed to the extent required to prepare our plan so that it properly tailors the nature and conduct of audit work to your circumstances. It is not designed to identify all risks affecting your operations nor all internal control weaknesses.

Period covered by this plan

This plan outlines our audit approach for the period 1 April 2012 to 31 March 2013 over the London Borough of Havering Pension Fund.

Risk assessment

Risk Assessment Results

We have undertaken an audit risk assessment which guides our audit activities. It allows us to determine where our audit effort should be focused and whether we can place reliance on the effective operation of your controls. Risks to the financial statements and our true and fair audit opinion are categorised as follows:

Significant	Risk of material misstatement in the accounts due to the likelihood, nature and magnitude of the balance or transaction. These require specific focus in the year.
Elevated	Although not considered significant, the nature of the balance/area requires specific consideration.
Normal	We perform standard audit procedures to address normal risks in any material financial statement line items.

Auditing Standards require us to include the following fraud risk as significant, relating to management override of controls as explained below.

Management override of controls

"Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus a significant risk." ISA 240 paragraph 31

This is considered as part of our risk assessment below.

Risk	Audit Risk	Reason for risk identification	Audit approach
Management override of controls	Significant	On account of the potential link to fraud, auditing standards consider the risk of management override of controls to always be a significant risk.	We will perform procedures to: • test the appropriateness of journal entries; • review any accounting estimates for biases and evaluate whether circumstances producing any bias represent a risk of material misstatement due to fraud; • evaluate the business rationale underlying significant transactions; • perform 'unpredictable' procedures; and • may perform other audit procedures if necessary.

Audit approach

Financial statements

Our audit of your financial statements is carried out in accordance with the Audit Commission's Code objective, which requires us to comply with International Standards on Auditing (ISAs) (UK & Ireland) issued by the Auditing Practices Board (APB). We are required to comply with them for the audit of your 2012/13 financial statements of the Fund.

We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and give a true and fair view. We use professional judgement to assess what is material. This includes consideration of the amount and nature of transactions.

Our audit approach is based on a thorough understanding of your Fund and is risk-driven. It first identifies and then concentrates resources on areas of higher risk and issues of concern to you. This involves breaking down the financial statements into components. We assess the risk characteristics of each component to determine the audit work required.

Our audit approach is based on understanding and evaluating your internal control environment and where appropriate validating these controls, if we wish to place reliance on them. This work is supplemented with substantive audit procedures, which include detailed testing of transactions and balances and suitable analytical procedures.

Materiality

We plan and perform our audit in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement. Materiality depends on the size and/or nature of misstatements we identify, judged in the surrounding circumstances. In broad terms, omissions or misstatements of items are material if they could, individually or collectively, influence economic decisions taken on the basis of the financial statement by relevant users of the financial statements. As a rule of thumb we set overall materiality for the financial statements at around 2% of net assets but there may be other qualitative or quantitative factors that influence our professional judgement of what is material to the financial statements as a whole or to specific balance or disclosures.

ISAs require us to keep a record of identified misstatements in order to assess their impact on the financial statements both individually and in aggregate. In order to avoid the need to record differences which are clearly trivial, individually or in aggregate, to the financial statements as a whole we propose a *de minimis* level of £400,000 for formal reporting to the Committee. If any differences above this limit are not adjusted we ask the Committee to explain the reason for this in the letter of representation.

We may still bring smaller misstatements to your attention if they are associated with control deficiencies identified or if there is any indication of possible financial loss to the Fund.

Summary of our approach

This is not an exhaustive list of all the tests that we will perform, but summarises the main aspects:

	Overall control environment	Investments assets and returns	Contributions	Benefits and membership
Governance controls	✔	✔	✔	✔
Administration and accounting controls	✔	✔	✔	✔
Service organisation controls		✔		
Analytical procedures		✔	✔	✔
Detailed testing		✔	✔	✔
Independent confirmations		✔		

Focus area	Planned response
Investment assets and returns	
Existence of investments	• Understand the Committee and management monitoring controls, including reviewing Committee meeting minutes. • Obtain independent confirmations of assets from the custodian and investment managers. • Review audited internal controls reports on investment management and custody.
Valuation of investments	• Test valuation of quoted investments against third party sources. • Understand how the Committee and management validate asset values provided by investment managers for investments which are not quoted. • Review valuations for pooled investment vehicles and any available internal controls reports.
Completeness of investments	• Review the reconciliations of cash inflows and outflows from the Fund's bank account compared to contributions and other income, benefits and expenses and the movements in investments. • Review the reconciliations performed in-house between investment manager and custodian assets.
Performance of investments reported is consistent with the financial statements	• Complete an analytical review of investment returns for reasonableness compared with the Fund's benchmarks and other external indices.
Allocation of investments is in accordance with the Statement of Investment Principles ('SIP')	• Review the allocation of investments compared with the requirements of the Statement of Investment Principles (SIP). •

Focus area	Planned response
Contributions	
Payment of employer contributions in accordance with the Rates and Adjustment Certificate and employee contributions per the prescribed rates for local government employees (England and Wales) ("the schedules")	• Review the controls over payroll and validate on a sample basis that these are operating as expected. • Undertake analytical review of contributions for reasonableness compared with the prior year, allowing for changes in membership, pay and rates of contributions. • Consider the monthly contributions received and investigate any unusual fluctuations. • Test on a sample basis that the contributions are calculated and paid in accordance with the relevant schedules. • Review the timing of the payment of contributions according to bank details compared with the requirements of the schedules.
Benefits and membership	
Benefits are correctly calculated according to the local government regulations	• Review the controls operated by the administration team (including over the pension payroll) and validate on a sample basis that these are operating as expected. • Undertake analytical review of pensions paid for reasonableness compared to the prior year, allowing for changes in membership and the effects of the pensions increase. • Consider the monthly total pensions paid and investigate any unusual fluctuations. • Perform substantive testing on a sample basis over material types of benefit payments.
Membership statistics accurately reflect the membership of the Fund	• Review the results of any pensioner existence checking exercise completed during the year. • Compare membership statistics and movements reported against the supporting data from the administration system and review for reasonableness compared with our expectations.
Other areas	
Current assets and liabilities are appropriately accounted for	• Review balances compared with the prior year and against our expectations from testing of income and expenditure. • Obtain independent confirmation of cash balances. • Review controls over cash movements and bank account authority levels.
Related party transactions	• Understand the controls that the Committee and management have over the identification of related parties and transactions with them. • Make specific enquiries for any transactions which look to be outside of the normal course of business.

Risk of fraud

International Standards on Auditing (UK&I) state that we as auditors are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

Auditors' responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

Management's responsibility

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

Responsibility of the Committee

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of antifraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.

Conditions under which fraud may occur

Management or other employees have an incentive or are under pressure

Incentive / pressure

Opportunity	Rationalisation/attitude
Circumstances exist that provide opportunity – ineffective or absent control, or management ability to override controls	Culture or environment enables management to rationalise committing fraud – attitude or values of those involved, or pressure that enables them to rationalise committing a dishonest act

Your views on fraud

We would like to discuss with the Committee:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistleblower lines) are in place in the entity?
- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

If any cases of fraud, either actual, suspected or alleged, come to the attention of the Committee members, we should be informed so that we can perform appropriate procedures.

Your team and independence

Your audit team has been drawn from both our government and public sector and our pension assurance teams. Your audit team consists of the key members listed below:

Audit team	Responsibilities
Julian Rickett ***Engagement Leader*** Tel:020 7804 0436 E:Julian.c.rickett@uk.pwc.com	Julian is responsible for independently delivering the audit in line with the Code of Audit Practice, including agreeing the audit plan, the quality of outputs and signing of opinions and conclusions. Julian is also responsible for liaison with the Leader of the Council and the Executive as appropriate.
Jo Maguire ***Pensions Director*** Tel:0113 289 4085 E:josephine.p.maguire@uk.pwc.com	Jo is responsible for ensuring the quality of our work is to the required standard from a pension's perspective and that we meet our commitments to you. Also responsible for liaison with the Members of the Pension Committee.
Christopher Longden ***Pensions Manager*** Tel:0207 213 2384 E:christopher.longden@uk.pwc.com	Chris is responsible for providing technical guidance, and is responsible for managing the audit to ensure we meet the agreed timetable, resolution of matters arising, key liaison with senior management and managing our team.
Amit Patel ***Audit Engagement Manager*** Mob. (0)77152 11544 E:amit.m.patel@uk.pwc.com	Amit is responsible for leading our audit team on site during the interim and final audit fieldwork visits, for coaching and briefing our staff and for carrying out audit work in complex areas. The Engagement Manager will be the first point of call during the interim and final audit.

Independence and objectivity

As external auditors of the Authority we are required to be independent of the Authority in accordance with the Ethical Standards established by the Auditing Practices Board (APB). These standards require that we disclose to those charged with governance all relationships that, in our professional judgement, may reasonably be thought to bear on our independence.

We have a demanding approach to quality assurance which is supported by a comprehensive programme of internal quality control reviews in all offices in the UK. Our quality control procedures are designed to ensure that we meet the requirements of our clients and also the regulators and the appropriate auditing standards within the markets that we operate. We also place great emphasis on obtaining regular formal and informal feedback.

We have made enquiries of all PwC teams providing services to you and of those responsible in the UK Firm for compliance matters.

There are no matters which we perceive may impact the independence and objectivity of the audit team.

Relationships and Investments

Members and senior officers should not seek or receive personal financial or tax advice from PwC. Non-executives who receive such advice from us (perhaps in connection with employment by a client of the firm) or who also act as director for another audit or advisory client of the firm should notify us, so that we can put appropriate conflict management arrangements in place.

Independence conclusion

At the date of this plan we confirm that in our professional judgement, we are independent auditors with respect to the Council, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

Communicating with you

Communications plan

ISA (UK&I) 260 (revised) 'Communication of audit matters with those charged with governance' requires auditors to plan with those charged with governance the form and timing of communications with them. We have assumed that 'those charged with governance' are the Committee. Our team works on the engagement throughout the year to provide you with a timely and responsive service. Below are the communications and at what stage when we expect to provide the Committee with the outputs of our audit.

Stage of the audit	Output	Date
Audit planning	Audit Plan	June 2013
Audit Findings	**ISA (UK&I) 260 report incorporating specific reporting requirements, including:** • Any expected modifications to the audit report; • Uncorrected misstatements, i.e. those misstatements identified as part of the audit that management have chosen not to adjust; • Material weaknesses in the accounting and internal control systems identified as part of the audit; • Our views about significant qualitative aspects of your accounting practices including accounting policies, accounting estimates and financial statements disclosures; • Any significant difficulties encountered by us during the audit; • Any significant matters discussed, or subject to correspondence with, Management; • Any other significant matters relevant to the financial reporting process; and • Written representation letter*.	September 2013
Audit reports	Pension Fund Financial Statements	September 2013
	Pension Fund Annual report	September 2013
Other public reports	**Annual Audit Letter** A brief summary report of our work, produced for Members and to be available to the public.	October 2013

*The representation letter is signed by the Council and covers the requirements for the Fund as well.

Timetable

Month/Deadline	Audit activity
26 June 2013	Review of Draft External Audit Plan by the Pensions Committee
March 2013	Interim audit begins
July to August 2013	Statement of Accounts audit
30 September 2013	Deadline for issue of the Audit Opinion on the Statement of Accounts
30 September 2013 (Target date for issuing the Audit Opinion on the Pension Fund Annual Report)	Pension Fund Annual Report
September 2013 (date to be confirmed)	Planned date for issue of final version of ISA (UK&I) 260 Report to those Charged with Governance
30 November 2013	Deadline for issue of Annual Audit Letter

Audit fees

The Audit Commission has provided indicative audit fee levels for the 2012/13 financial year. The base fee scale for our audit of the Fund is £21,000 (2011/12: £35,000)

The fees are not on a like for like basis as the 2011/12 fee includes a mandatory recharge paid to the Audit Commission, which is not required in 2012/13.

We have based the fee level on the following assumptions:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- We are able to place reliance, where planned, upon the work of internal audit;
- Agreeing the availability of staff whist we are on site. Ensuring that staff are briefed so that they can pick up queries on work done by team members when the team members are not available;
- Discussing any unusual, new or complex transactions with us as they occur so that we can understand the detail and agree the necessary accounting treatment. Bringing unusual or potentially contentious items in the accounts to our attention as soon as possible;
- Providing us with named contacts for audit queries and for responding within an agreed timescale;
- Transaction listings are sufficiently detailed and are available to allow early sample testing to be carried out by the audit team;
- Evidence provided in relation to audit sample requests and answers provided to audit queries have been internally reviewed by the authority;
- Delays in producing the financial statements or missing and incomplete working papers are communicated to us two weeks before the start of the final audit;
- We are able to draw comfort from your management controls where applicable;
- We are required to review no more than a maximum of 3 draft financial statements;
- There are no accounting or auditing issues of a complex nature, which involve significant input of time from senior members of the team; and
- Accounts opinion being unqualified.

If these prove to be unfounded, we will seek a variation order to the agreed fee, to be discussed in advance with you.

Should PwC be required to answer a formal question or objection raised by a local elector, the costs associated with that work would be additional to the fee quoted above.

Appendix - Other engagement information

The Audit Commission appoint us as auditors to the London Borough of Havering and the terms of our appointment are governed by:

- The Code of Audit Practice; and
- The Standing Guidance for Auditors.

There are five further matters which are not currently included within the guidance, but which our firm's practice requires that we raise with you.

Electronic communication

During the engagement we may from time to time communicate electronically with each other. However, the electronic transmission of information cannot be guaranteed to be secure, virus or error free and such information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete or otherwise be adversely affected or unsafe to use.

PwC partners and staff may also need to access PwC electronic information and resources during the engagement. You agree that there are benefits to each of us in their being able to access the PwC network via your internet connection and that they may do this by connecting their PwC laptop computers to your network. We each understand that there are risks to each of us associated with such access, including in relation to security and the transmission of viruses.

We each recognise that systems and procedures cannot be a guarantee that transmissions, our respective networks and the devices connected to these networks will be unaffected by risks such as those identified in the previous two paragraphs. We each agree to accept the risks of and authorise (a) electronic communications between us and (b) the use of your network and internet connection as set out above. We each agree to use commercially reasonable procedures (i) to check for the then most commonly known viruses before either of us sends information electronically or we connect to your network and (ii) to prevent unauthorised access to each other's systems.

We shall each be responsible for protecting our own systems and interests and you and PwC (in each case including our respective directors, members, partners, employees, agents or servants) shall have no liability to each other on any basis, whether in contract, tort (including negligence) or otherwise, in respect of any error, damage, loss or omission arising from or in connection with the electronic communication of information between us and our reliance on such information or our use of your network and internet connection.

The exclusion of liability in the previous paragraph shall not apply to the extent that such liability cannot by law be excluded.

Access to audit working papers

We may be required to give access to our audit working papers to the Audit Commission or the National Audit Office for quality assurance purposes.

Quality arrangements

We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved or if you are dissatisfied with any aspect of our services, please raise the matter immediately with the partner responsible for that aspect of our services to you. If, for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Paul Woolston, our Audit Commission Lead Partner at our office at 89 Sandyford Road, Newcastle Upon Tyne, NE1 8HW, or James Chalmers, UK Head of Assurance, at our office at 7 More London, Riverside, London, SE1 2RT. In this way we can ensure that your concerns are dealt with carefully and promptly. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. This will not affect your right to complain to the Institute of Chartered Accountants in England and Wales or to the Audit Commission.

Events arising between signature of the financial statements and their publication

ISA (UK&I) 560 (revised) places a number of requirements on us in the event of material events arising between the signing of the financial statements and their publication. You need to inform us of any such matters that arise so we can fulfil our responsibilities.

Freedom of information act

In the event that, pursuant to a request which the London Borough of Havering has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. The London Borough of Havering agrees to pay due regard to any representations which PwC may make in connection with such disclosure and the London Borough of Havering shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, the London Borough of Havering discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE **26 June 2013**	**REPORT**

Subject Heading:	**PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 31 MARCH 2013**
CMT Lead:	**Andrew Blake Herbert**
Report Author and contact details:	Debbie Ford Pension Fund Accountant (01708) 432569 debbie.ford@havering.gov.uk
Policy context:	Pension Fund Managers' performances are regularly monitored in order to ensure that the investment objectives are being met.
Financial summary:	This report comments upon the performance of the Fund for the period ended 31 March 2013

The subject matter of this report deals with the following Council Objectives

Clean, safe and green borough	[]
Excellence in education and learning	[]
Opportunities for all through economic, social and cultural activity	[]
Value and enhance the life of every individual	[X]
High customer satisfaction and a stable council tax	[]

SUMMARY

This report provides the Committee with an overview of the performance of the Havering Pension Fund investments for the quarterly period to 31 March 2013. The performance information is taken from the Quarterly Performance Report supplied by each Investment Manager, the WM Company Quarterly Performance Review Report and Hymans Monitoring Report.

The net return on the Fund's investments for the **quarter** to 31 March 2013 was **9.5%.** This represents an out performance of **0.9%** against the combined tactical benchmark and an out performance of **8.2%** against the strategic benchmark.

The overall net return of the Fund's investments for the **year** to 31 March 2013 was **14.4%.** This represents an out performance of **1.1%** against the annual tactical combined benchmark and an out performance of **2.9%** against the annual strategic benchmark.

Global economic data remained mixed with the signs of gradual recovery in the US whilst Eurozone continued to be weak. Most Equity markets made gains over the first quarter of 2013. Government bonds came under pressure but renewed concerns over Eurozone ensured some revival in demand for safe havens. Index Linked bonds outperformed fixed interest bonds following the decision to retain the current RPI calculation methodology. GPD was estimated at -0.3%. CPI inflation rose to 2.8% and no change to UK interest rates.

It is now possible to measure the individual managers' annual return for the new tactical combined benchmark since they became active on the 14th February 2005. These results are shown later in the report.

RECOMMENDATIONS

That the Committee:

1) Considers Hymans performance monitoring report and presentation (Appendix A).
2) Receive a presentation from the Funds Property Manager (UBS), the Funds Multi Asset Absolute Return Manager (Ruffer) and the funds Global Equity Manager (Baillie Gifford).
3) Notes the summary of the performance of the Pension Fund within this report.
4) Considers the quarterly reports provided by each investment manager.
5) Considers and notes any Corporate Governance issues arising from voting as detailed by each manager.
6) Considers any points arising from officer monitoring meetings (section 4 refers.
7) Notes the analysis of the cash balances (paragraphs 2.2 and 2.3 refers).

REPORT DETAIL

1. Background

1.1 A restructure of the fund took place during the first half of 2008 and these changes were reflected in a revised Statement of Investment Principles (SIP) adopted by members in September 2008 and subsequently updated in June 2010 and November 2011. A change to the SIP was last agreed in March 2013 and the portfolio is currently being restructured to reflect those decisions.

1.2 A strategic benchmark has been adopted for the overall Fund of Gilts + 2.6% (net of fees) per annum. This is the expected return in excess of the fund's liabilities over the longer term. **The main factor in meeting the strategic benchmark is market performance.**

1.3 Individual manager performance and asset allocation will determine the out performance against the strategic benchmark. Each manager has been set a specific (tactical) benchmark as well as an outperformance target against which their performance will be measured. This benchmark is determined according to the type of investments being managed. This is not directly comparable to the strategic benchmark as the majority of the mandate benchmarks are different but contributes to the overall performance.

1.4 Changes to the Asset Allocation targets were agreed by members at the Pensions Committee meeting on the 26 March 2013. The long term strategy of the fund adopted at the meeting is to reduce exposure to equities and be invested in multi asset strategies. Pending appointment of the providers of the multi-asset mandates members agreed to adopt an interim strategy which considered the fund rebalancing its overweight position in equities. During May, 5% of the fund was switched from SSgA's UK/Global Equities Manager to an SSgA cash fund. The long term strategy decisions are likely to be progressed during July 2013. No other changes have yet been made to the individual manager allocation and are shown in the following table against the manager's benchmarks:

Manager and % of target fund allocation	Mandate	Tactical Benchmark	Out performance Target
Standard Life 17%	UK Equities -Active	FTSE All Share Index	2%
State Street (SSgA) 21%	UK/Global Equities - passive	UK- FTSE All Share Index Global (Ex UK) – FTSE All World ex UK Index	To track the benchmark
Baillie Gifford Street 17%	Global Equities - Active	MSCI AC World Index	1.5 – 2.5% over rolling 5 year period
Royal London Asset Management	Investment Grade	• 50% iBoxx Sterling Non Gilt Over 10 Year Index	0.75%

Manager and % of target fund allocation	Mandate	Tactical Benchmark	Out performance Target
20%	Bonds	• 16.7% FTSE Actuaries UK Gilt Over 15 Years Index • 33.3% FTSE Actuaries Index-Linked Over 5 Year Index	
UBS 10%	Property	IPD (previously called HSBC/AREF) All Balanced Funds Median Index	To outperform the benchmark
Ruffer 10%	Multi Asset	Not measured against any market index – for illustrative purposes LIBOR (3 months) + 4%.	To outperform the benchmark
State Street (SSgA) 5%	Sterling Liquidity Cash Fund	7-day LIBID	To outperform the benchmark

1.5 The mandate with the Global Equities Manager (Alliance Bernstein) was terminated in February 2011. Assets were transferred to State Street Global Advisors pending further consideration of the investment strategy. The Fund completed a tendering process in the search for a new Global Equity Manager and at a Special Pensions Committee on the 15 December 2011, awarded the mandate to Baillie Gifford. Baillie Gifford commenced trading from April 2012.

1.6 UBS, SSgA and Baillie Gifford manage the assets on a pooled basis. Standard Life, Royal London and Ruffer manage the assets on a segregated basis. Performance is monitored by reference to the benchmark and out performance target. Each manager's individual performance is shown in this report with a summary of any key information relevant to their performance.

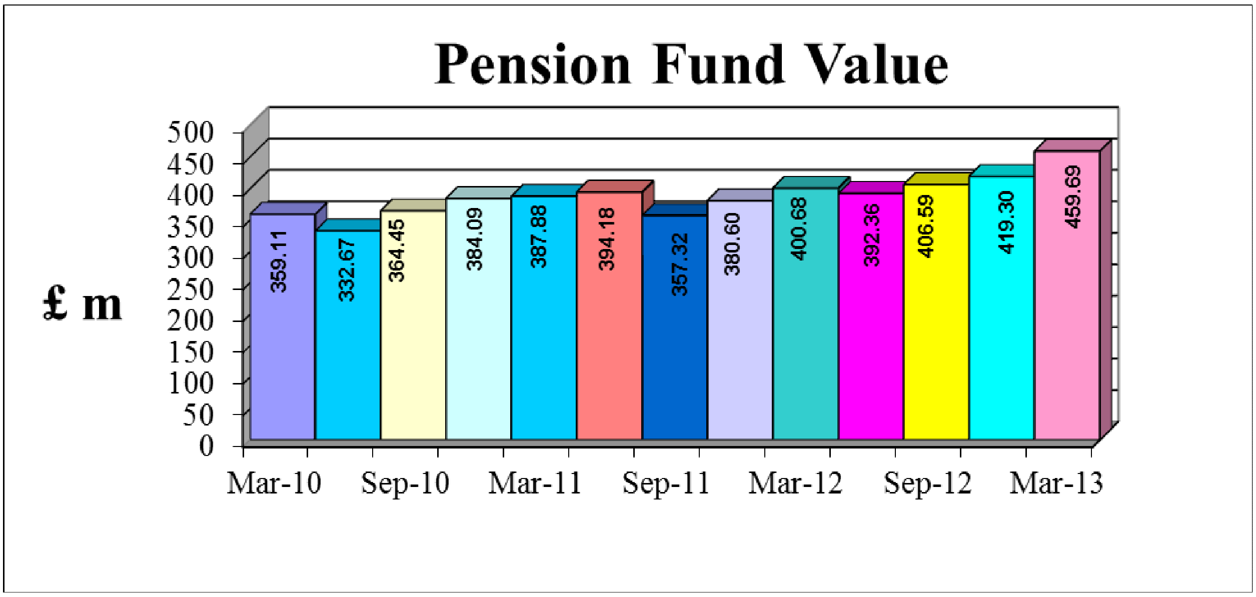
1.7 Since 2006, to ensure consistency with reports received from our Performance Measurers, Investments Advisors and Fund Managers, the 'relative returns' (under/over performance) calculations has been changed from the previously used arithmetical method to the industry standard geometric method (please note that this will sometimes produce figures that arithmetically do not add up).

1.8 Existing Managers are invited to present at the Pensions Committee Meeting every six months. On alternate dates, they meet with officers for a formal monitoring meeting. The exception to this procedure is the Multi Asset (Ruffer) and the Passive Equity (SSgA) Managers who will attend two meetings per year, one with Officers and one with Pensions Committee. However if there are any specific matters of concern to the Committee relating to the Managers performance, arrangements can be made for additional presentations.

1.9 Hyman's performance monitoring report is attached at **Appendix A.**

2. Fund Size

2.1 Based on information supplied by our performance measurers the total combined fund value at the close of business on 31 March 2013 was **£459.69m**. This valuation differs from the basis of valuation used by our Fund Managers and our Investment Advisor in that it excludes income. This compares with a fund value of £419.30m at the 31 December 2012; an **increase** of £40.39m. The movement in the fund value is attributable to an increase in cash of £0.56m and an increase in fund performance of £39.83m. The internally managed cash level stands at **£3.19m** of which an analysis follows in this report.



Source: WM Company (Performance Measurers)

2.2 An analysis of the internally managed cash balance of **£3.19** follows:

CASH ANALYSIS	**2010/11**	**2011/12 Updated**	**2012/13 31 Mar 13**
	£000's	£000's	£000's
Balance B/F	**-4763**	**-8495**	**-1194**
Benefits Paid	25702	31123	31122
Management costs	1895	1606	995
Net Transfer Values	-3053	-58	-916
Employee/Employer Contributions	-28333	-30194	-29556
Cash from/to Managers/Other Adj.	176	4869	-3603
Internal Interest	-119	-45	-41
Movement in Year	**-3732**	**7301**	**-1999**

Balance C/F	**-8495**	**-1194**	**-3193**

**The 2011/12 figures are based upon an interim figures and are subject to further adjustments.*

2.3 As agreed by members on the 27June 2012 a cash management policy has now been adopted. The policy sets out that should the cash level fall below the de-minimus amount of £2m this should be topped up to £4m. This policy includes drawing down income from the bond and property manager.

3. <u>Performance Figures against Benchmarks</u>

3.1.1 The overall net performance of the Fund against the new **Combined Tactical Benchmark** (the combination of each of the individual manager benchmarks) follows:

	Quarter to 31.03.13	**12 Months to 31.03.13**	**3 Years to 31.03.13**	**5 years to 31.03.13**
Fund	9.5%	14.4%	8.2%	5.6%
Benchmark return	8.5%	13.1%	8.8%	7.1%
*Difference in return	0.9%	1.1%	-0.5%	-1.4%

Source: WM Company

**Totals may not sum due to geometric basis of calculation and rounding.*

3.1.2 The overall net performance of the Fund against the **Strategic Benchmark** (i.e. the strategy adopted of Gilts over 15 years + 2.6%) is shown below:

	Quarter to 31.03.13	**12 Months to 31.03.13**	**3 Years to 31.03.13**	**5 years to 31.03.13**
Fund	9.5%	14.4%	8.2%	5.6%
Benchmark return	1.2%	11.2%	15.3%	12.0%
*Difference in return	8.2%	2.9%	-6.1%	-5.7%

Source: WM Company

**Totals may not sum due to geometric basis of calculation and rounding.*

3.1.3 The following tables compare each manager's performance against their **specific (tactical) benchmark** and their **performance target** (benchmark plus the agreed mandated out performance target) for the current quarter and the last 12 months.

QUARTERLY PERFORMANCE (AS AT 31 MARCH 2013)

QUARTER	Standard Life	Royal London	UBS	Ruffer	SSgA	Baillie Gifford[1]
Return (performance)	8.9	3.7	-2.1	9.6	14.0	15.8
Benchmark	10.3	3.8	-0.8	0.1	14.0	14.0
***Over/(Under) Performance vs. Benchmark**	**-1.4**	**-.10**	**-2.8**	**9.5**	**0.0**	**1.5**
TARGET	10.8	3.9	n/a	n/a	n/a	n/a
*** Over/(Under) Performance vs. Target**	**-1.9**	**-.3**	**n/a**	**n/a**	**n/a**	**n/a**

Source: WM Company, Fund Managers and Hymans

[1] Trading commenced 25 April so not trading for the full period. Target is measured using annualised data, so not yet applicable.

* Totals may not sum due to geometric basis of calculation and rounding.

ANNUAL PERFORMANCE (LAST 12 MONTHS)

ANNUAL	Standard Life	Royal London	UBS	Ruffer	SSgA	Baillie Gifford
Return (performance)	17.2	13.9	-11.2	10.0	17.0	n/a
Benchmark	16.8	12.7	0.3	0.7	17.1	n/a
***Over/(Under) Performance vs. Benchmark**	**0.4**	**1.2**	**-11.5**	**9.3**	**-0.1**	**n/a**
TARGET	18.8	13.4	n/a	n/a	n/a	n/a
*** Over/(Under) Performance vs. Target**	**-1.6**	**0.4**	**n/a**	**n/a**	**n/a**	**n/a**

Source: WM Company, Fund Managers and Hymans

- Totals may not sum due to geometric basis of calculation and rounding.
- Baillie Gifford inception 25 April 2012

4. Fund Manager Reports

4.1. UK Equities (Standard Life)

a) In accordance with agreed procedures officers met with representatives from Standard Life on the 20 May 13 at which a review of their performance as at 31 March 13 was discussed.

b) The value of the fund as at 31 March saw an increase in value of 8.82% on the previous quarter.

c) Standard Life underperformed the benchmark in the quarter by -1.4% and underperformed the target in the quarter by -1.9%. Since inception they are below benchmark by -0.8% and -2.7% against the target. As at the date of the meeting performance matched the benchmark.

d) Standard Life reported that equity markets made a strong start to 2013, but caution grew towards the end of the period. The terms of the Cypriot bailout, rising tensions in North Korea and weaker jobs data in the US in March dampened enthusiasm. Europe remains troubled with most countries struggling under the weight of austerity programmes. The strong quarter returns mask sector rotation in favour of more defensive sectors.

e) Food producers, Beverages and Fixed Line telecommunications all performed well in response to macro-economic concerns around Cyprus and North Korea. In contrast, banks, chemicals and oil producers all weakened. In particular, mining companies were hit on fears of weak economic activity affecting metal prices.

f) Standard Life's positive performance was largely down to its exposure to International Consolidated Airlines Group and easy jet. Negative contributors to performance were due to overweight holdings in Rio Tinto and Vedanta. Weakness in commodity process dragged shares, despite positive management change at Rio Tinto and encouraging regulatory news at Vedanta.

g) The portfolio activity during the quarter were as follows :
   - Added to holdings in **Essar Energy** – increased holding on the basis of successful debt refinancing and encouraging regulatory news on power generation in India.
   - Purchased **Serco** (specialises in bidding for outsourced services**)** the outlook for new contract wins in the UK and AMEA is very strong.
   - Added to holdings in **Vodafone** – increased likelihood of a deal to sell its stake in Verizon Wireless.
   - Purchased First Quantum Minerals – following a positive view on synergies from their acquisition of Inmet.
   - Sold **RSA** – following a disappointing dividend cut.
   - Reduced holdings in **RBS**, in response to disappointing results.
   - Sold **Kingfisher** (owner of B&Q) followings concerns over product sourcing strategy at the same time as their French building business was struggling
   - Sold **Telecity** a concern over their expansion plan which involves establishing new data centres was proceeding slower than planned.

h) Even though Standard Life had reduced their holdings in RBS it is still one of the largest holdings in the portfolio and they were asked why they believe the banking sector offers the potential for excessive returns. Banks have already suffered the worst of the damages and believe that share prices will respond to the more recent rise in margins, following lower debts and risk.

i) They were also asked about their zero weighting positions in British American Tobacco and Diageo (Sells beers and spirits). They explained that high illicit trades and e-cigarettes have impacted trading for American Tobacco and Diageo shares have a high valuation.

j) In the quarter Stock selection detracted -0.99% from performance and the sector allocation detracted -0.38%.

k) Sector selection has been negative over the quarter and the year and Standard Life were asked how important sector selection was? They confirmed stock selection was predominately the driving force of the decisions.

l) A discussion was held with Standard Life about their views on the actions announced by the Bank of Japan. They believe QE has a positive impact on equities due to the lower yields on bonds and that investors on their quests for yields will switch from bonds to equities. They also felt that Europe will be under pressure to introduce QE but will not happen until after the elections in Germany at the end of the summer.

m) Standard Life believes that the UK Equity market outlook remains attractive as Eurozone risks diminish and US growth recovery is on a good path.

n) No governance or whistle blowing issues were reported.

4.2. UK Investment Grade Bonds (Bonds Gilts, UK Corporates, UK Index Linked, UK Other) – (Royal London Asset Management)

a) In accordance with agreed procedures officers met with representatives from Royal London on the 20 May 13 at which a review of their performance as at 31 March 13 was discussed.

b) The value of the fund as at 31 March 2013 saw an increase of 3.8% on the previous quarter.

c) The fund achieved a net return of 3.8% during the quarter which was flat against the benchmark and below target by -0.3%. Since inception they outperformed the benchmark by 0.6% but below target by -0.2%.

d) Royal London reported on market events during the quarter which saw the base rate kept low at 0.5% and believes that this will remain low for the next couple of years. The UK Economy still remains weak and the UK was downgraded in the quarter by two credit rating agencies, inconsequential in terms of the market. Inflation remains above target and unexpectedly there was no change to methodology of calculating RPI. The banking sector progress remains slow with regulation constraining new lending. Concerns still persisted over sovereign risk within Europe with the indecisive results from the Italian election and negotiations over the support package to Cyprus adding to the volatility.

e) Asset allocation of the fund during the quarter was 58.9% in Sterling Credit (corporate) Bonds, 26.7% in Index Linked Bonds, 7.7% in Government Bonds, 6.1% in Overseas Bonds and 0.9% cash. The weighting to Government Bonds was reduced by 6.5% and overseas bonds were increased by 5%.

f) The fund was underweight in Index Linked Bonds in anticipation of an implied fall in inflation following a change in the methodology of RPI. This detracted from performance as the ONS left the methodology unchanged.

g) The fund was fully invested in corporate bonds and asset allocation was a positive factor in performance.

h) Exposure to Overseas bonds was increased during the quarter but this off benchmark position was marginally detrimental to performance.

i) There were a few portfolio positioning changes during the quarter with regard to duration and yield curve which were both detrimental to performance.

j) Sector and stock selection decisions within this position also added to positive performance, in particular the zero weighting position in supranational bonds and overweight position to covered bonds and subordinated financial debt. Stock selection in government bonds added value

k) Portfolio activity and opportunities during the quarter are as follows:
   - Within government bonds the fund was centred on the relative expensiveness of UK gilts and index linked securities particularly at the 10 to 15 year sector. A switch was made to both longer dated bonds and into overseas assets.
   - Within corporate bonds several new issues were purchased:
     - A debut hybrid utility bond from EDF and National Grid – Hybrid bonds provide the issuer with the option to extend the maturity of the bond beyond its call date.
     - Structured bonds from UPP (provide dedicated campus accommodation), Tesco and INTU (new name for shopping centres) and High Speed Rail Finance
   - No exposure to supranational debt remains
   - Their bias towards secured bonds were maintained

l) Royal London was asked to explain why they increased exposure to overseas bonds. They explained that following the ONS decision on RPI they felt that 10 year yield levels were expensive, so they built up positions in Swedish, US, Canadian, Australian and German index linked bonds. However UK Index Linked bonds continued to outperform and whilst German and Australian did well and sold profitably this still marginally detracted from performance. At the time of the meeting the overseas exposure has now been trimmed down to around 3%.

m) Secured bonds represent over 30% of the portfolios assets so Royal London were asked what measures are in place to monitor and/or change this position should the view change. Royal London believes that very little could happen to make them change their view at the moment, they believe they are good long term investments and mainly focus on the assets backing the bonds. They keep these bonds under review and would sell out for a good price or would sell if any dangers arise.

n) A discussion was had with Royal London as to whether there are any areas of the fixed income market that offers value but the current mandate restricts them from investing. Whilst Royal London do not believe that changing the mandate would offer any potential value they will follow this up with Hymans.

o) No governance or whistle blowing issues were reported.

4.3. Property (UBS)

a) Representatives from UBS are due to make a presentation at this committee therefore a brief overview of their performance as at 31 March 2013 follows.

b) The value of the UBS portfolio fund saw a decrease in value of 1.47% since the previous quarter.

c) UBS underperformed the benchmark in the quarter by -2.9% and underperformed the benchmark in the year by -11.5%. This underperformance is primarily due to the valuations including a 'marked to sell' across the portfolio due to the redemption queue.

4.4. Multi Asset Manager (Ruffer)

a) Representatives from Ruffer are due to make a presentation at this committee therefore a brief overview of their performance as at 31 March 2013 follows.

b) In accordance with agreed procedures officers will only meet with representatives from Ruffer once in the year with the other meeting to be held with members. Ruffer attended their last meeting with members at the 27 June 12 Pensions Committee meeting. Officers met with representatives from Ruffer on the 13 February 2013.

c) During January 2013 £20m was transferred to Ruffer from the passive equities manager which is reflected in the fund value of £64.3m as at the end of March 2013.

d) Ruffer had outperformed the benchmark in the quarter by 9.5% and outperformed the benchmark in the year by 9.3%.

4.5. Passive Equities Manager (SSgA)

a) In accordance with agreed procedures officers will only meet with representatives from SSgA once in the year with the other meeting to be held with members. SSgA last met with members on the 12 December

2012 and officers met with representatives from SSgA on the 20 May 2013, at which a review of their performance as at 31 March 13 was discussed.

b) During January 2013 £20m was transferred to the Multi Asset Manager (Ruffer). This is reflected in the value of the fund decreasing by 4.82% compared to the previous quarter.

c) As expected the portfolio performed in line with the benchmark over the quarter.

d) The only subject that State Street reported on when asked if there were any issues in any of the regional markets over the quarter was the introduction by the French who has brought in a new tax on share trading in French equities.

e) Members agreed at the Pensions Committee on the 26 March to transfer £20m into an SSgA cash fund on a short term basis pending the implementation of the strategy to reduce exposure to equities and increase exposure to multi assets. This decision was driven by risk diversification and preservation of capital. On advice received from Hymans £20m was transferred from the MPF passive equity portfolio to the MPF Sterling Liquidity Fund during May 2013.

f) The MPF Sterling Liquidity Fund policy is to maintain safety of principal by investing in short-term money market instruments and fixed deposits. It is a Pooled fund and is measured against a benchmark of 7-day LIBID.

g) No other governance issues or whistle blowing were reported.

4.6. Global Equities Manager (Baillie Gifford)

d) Representatives from Baillie Gifford are due to make a presentation at this committee therefore a brief overview of their performance as at 31 March 2013 follows.

a) The value of the Baillie Gifford portfolio fund saw an increase in value of 15.79% since the previous quarter.

b) Baillie Gifford had outperformed the benchmark in the quarter by 1.5% and outperformed the benchmark since inception 2.1%.

5. Corporate Governance Issues

The Committee, previously, agreed that it would:

1. Receive quarterly information from each relevant Investment Manager, detailing the voting history of the Investment Managers on contentious issues. This information is included in the Managers'

Quarterly Reports, which is available for scrutiny in the Members Lounge.

2. Consider a sample of all votes cast to ensure they are in accordance with the policy and determine any Corporate Governance issues arising.

3. Receive quarterly information from the Investment Managers, detailing new Investments made.

- Points 1 and 3 are contained in the Managers' reports.

- With regard to point 2, Members should select a sample of the votes cast from the voting list supplied by the managers placed in the Member's room which is included within the quarterly report and question the Fund Managers regarding how Corporate Governance issues were considered in arriving at these decisions.

This report is being presented in order that:

- The general position of the Fund is considered plus other matters including any general issues as advised by Hymans.

- Hymans will discuss the managers' performance after which the particular manager will be invited to join the meeting and make their presentation. The managers attending the meeting will be from:

  UBS, Ruffer and Baillie Gifford

- Hymans and Officers will discuss with Members any issues arising from the monitoring of the other managers.

IMPLICATIONS AND RISKS

Financial Implications and risks:

Pension Fund Managers' performances are regularly monitored in order to ensure that the investment objectives are being met and consequently minimise any cost to the General Fund.

Legal Implications and risks:

None arising directly

Human Resources Implications and risks:

There are no immediate HR implications. However longer term, shortfalls may need to be addressed depending upon performance of the fund.

Equalities and Social Inclusion Implications and risks:

None arising directly

BACKGROUND PAPERS

Standard Life Quarterly report to 31 March 2013
Royal London Quarterly report to 31 March 2013
UBS Quarterly report to 31 March 2013
Ruffer Quarterly report to 31 March 2013
State Street Global Assets reports to 31 March 2013
The WM Company Performance Review Report to 31 March 2013
Hyman's Monitoring Report to 31 March 2013