MINUTES OF A MEETING OF THE PENSIONS COMMITTEE
Committee Room 3A - Town Hall
23 September 2014 (7.30 - 9.30 pm)

Present:

COUNCILLORS

Conservative Group John Crowder (Chairman), Melvin Wallace and Roger Westwood

Residents' Group Linda Hawthorn and Ron Ower

Admitted/Scheduled Bodies Representatives: Heather Foster-Byron

Trade Union Observers: John Giles

Apologies were received for the absence of Councillors David Johnson and John Mylod and the GMB representative John Hampshire.

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

4 MINUTES OF THE MEETING

The Minutes of the meeting of the Committee held on 24 June, 2014 were agreed as a correct record and signed by the Chairman.

5 PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDING 30 JUNE 2014

Officers advised the Committee that the net return on the Fund's investments for the quarter to 30 June 2014 was 1.7%. This represented an out performance of -1.3% against the combined tactical benchmark and an under performance of -2.8% against the strategic benchmark.

The overall net return for the year to 30 June 2014 was 9.2%. This represented an out performance of 1.1% against the annual tactical combined benchmark and an out performance of 0.7% against the annual strategic benchmark.

1. Hymans Robertson (HR)

- Market Summary
  - The UK economy continued to recover, with the Office for National Statistics announcing that revised data scheduled to be released in September 2014 would show the UK's GDP had already passed its pre-recession peak. The unemployment rate fell over the three months to may 2014, now standing at 6.5%. As economic newsflow continues to be positive, the Bank of England Governor, Mark Carney, announced over the quarter that the Bank may start raising interest rates by the end of the year. Credit ratings agency S&P also upgraded the UK's rating outlook from negative to stable.
  - Over the quarter, Sterling appreciated against the US dollar, Euro and Yen. For the first time since January 2009, the $/£ exchange rate reached $1.70/£. In Sterling terms, Emerging Markets were best performing region for equities (5.0%) over the quarter with all other regions also delivering positive absolute performance. Conventional and index-linked gilts remained in positive territory as long-dated yields fell, returning 2.3% and 1.1% respectively. Credit spreads continued to narrow, resulting in corporate bonds returning 2.0% over the quarter. Property also continued to post strong returns.

- Fund Performance

  - Assets were valued at £516.3m as at 30 June 2014, an increase of £12.2m over the quarter. The total return on the Fund's assets over the quarter was 1.7%, marginally behind the benchmark return of 1.9%.

  - Performance from the Fund's active equity manager, Baillie Gifford, detracted from performance as the mandate underperformed its benchmark by 2.2%. Performance from the Multi-asset mandates was mixed with the Baillie Gifford DGF outperforming their target, whilst Barings DAAF and the Ruffer Absolute funds both underperformed their respective benchmarks.

- Investment Manager changes

  - Following the quarter end, Barings had announced the departure of Percival Stanion (head of the Global Multi-Asset group and lead portfolio manager for the DAA Fund) together with Andrew Cole and Shaniel Ramjee, two other members of the team. Following this, Hymans Robertson had changed their rating of the DAA Fund to "1"- Sell immediately and had advised the Fund to disinvest.

Disinvestment was made on the 29 August 2014 dealing date.

- UBS had announced that the proposed governance changes for the Triton Fund had been overwhelmingly approved by investors at EGMs held in early June and accordingly, the proposed changes had been implemented. UBS had also announced that John Murnaghan, Assistant Portfolio Manager for Triton had resigned, leaving UBS in August. He would be replaced in this role by Jonathan Hollick, an existing member of the team.

- Asset Allocation

  - As at the quarter end, the Fund's direct allocation to equity assets had been slightly overweight target at 26.0%. On a look-through basis, the allocation to equity assets was 45%. The Fund had an overweight allocation to cash as c. £11.6m was invested in the SSgA Liquidity Fund pending allocation to a local infrastructure project.

2. Royal London Asset Management (RLAM)

Paul Rayner, Head of Government Bonds and Fraser Chisholm, Client Relationship Director, Strategic Partnerships attended the meeting to give a presentation on the performance of the conventional/index linked gilts and conventional credit bonds mandate.

At the time the report had been prepared the fund value (at 30 June 2014) stood at £101.87m, by 19 September the value stood at £106.07m. We were advised that during quarter 2 Royal London had out-performed the benchmark in all four asset classes. Since the exception of the mandate Royal London had exceeded the benchmark by 0.74%, just -0.01% relative to the objective.

We thanked Royal London for their presentation.

3. UBS Triton Property Fund (UBS)

Howard Meaney, Head of Global Real Estate – UK (GRE – UK) and Portfolio Manager, UBS Triton Property Fund attended the meeting to give a presentation on the performance of the property mandate.

As at 30 June 2014 the mandate had out-performed the All Balanced Fund Index over the last 3 months, last 6 months and last 12 months.

We thanked Howard for his presentation and his insight into the Fund's future strategy.

4. Miscellaneous

We have discussed the possibility of changing the benchmark for Royal London. HR indicated that he was already in discussion with Royal London as to the best way forward.

6 **PENSION FUND ACCOUNTS 2013/14**

Officers had provided an extract of the Council's Statement of Accounts for the year to 31 March 2014, showing the unaudited accounts of the Havering Pension Fund as at that date.

Key items to note from the statement were:

- The Net Assets of the Fund had increased to **£506m** for 2013/14 from £461m in 2012/13, a net increase of £45m.
- The net increase of £45m was compiled of a change in the market value of assets of £24m, investment income of £9.2m and net additions of cash of £13m, and offset by management expenses of (£1.2m).
- The overall return on the Fund's investments was 7.0% (net of fees). This represented an out performance of 1.5% against the tactical benchmark and an out performance of 7.0% against the strategic benchmark.
- A copy of the audited Pension Fund Accounts and the auditors' opinion would be included in the 2013/14 Pension Fund Annual Report. The statutory publication date for the 2013/14 Pension Fund Annual Report is 1 December 2014.

We have **noted** the report.

7 **RESPONSE TO AUDITORS: REPORT TO THOSE CHARGED WITH GOVERNANCE - INTERNATIONAL STANDARD OF AUDITING (ISA) 260**

The Council's external auditors PricewaterhouseCoopers (PWC) had submitted their draft ISA 260 report. PWC indicated that they had reviewed their plan and had concluded that it remained appropriate, apart from the following changes to their risk assessment:

- A significant risk has been noted for the financial resilience of the Authority as part of our consideration of the Value for Money criteria after considering the Authority's medium term financial strategy, which identifies a significant budget gap due to cost pressures and funding reductions.

- We have added a new risk in relation to oneSource, the joint committee between the Council and the London Borough of Newham.

We have **noted** the report and the responses of officers to the issues raised in the report.

8 **LOCAL GOVERNMENT PENSION SCHEME - LONDON BOROUGH OF HAVERING EMPLOYER DISCRETIONS: STATEMENT OF POLICY AND DISCRETION DECISIONS**

As a result of the changes in the Local Government Pension Scheme Regulations (LGPS) 2013 and the Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014, Scheme employers participating in the LGPS in England and Wales had to formulate, publish and keep under review a Statement of Policy on certain discretions which they have the power to exercise in relation to members of the Career Average Revalued Earnings (CARE) Scheme.

At the meeting on 24 June 2014 we delegated to the Group Director of Resources, the Director of Human Resources and Organisational Development and the Council's Monitoring Officer, acting jointly the power to set the discretion decisions and Policy Statement.

We have **noted** the final employer discretion decisions and the Policy Statement for the London Borough of Havering as submitted to us.

9 **THE LOCAL GOVERNMENT PENSION SCHEME CHARGING POLICY AND ADMINISTRATIVE TEAM WORK PLAN**

a) Charging Policy

Officers submitted for our approval a draft charging policy. This set out the proposed Pension Fund policy relating to charges for specific areas of work carried out directly for scheme employers, together with other issues that may give rise to employer charges such as strain costs, poor performance and late receipt of contributions. The policy would improve Scheme Employer's knowledge and understanding of their obligations and liabilities in the scheme and ensure a consistent approach to the monitoring of employer performance.

With the increase in the number of Scheme Employers, together with a significant increase in the information employers were required to retain and provide to the Pension Administration Team as a result of the Local Government Pension Scheme Regulations 2013 and the Transitional Regulations 2014, there was an increased requirement to control the risk of employers failing to meet the requirements. Setting out a comprehensive Charging Policy was currently the most appropriate way to minimise employer risk of failing to comply with the information requirements and ensure the fund was not placed at risk of increased costs in supporting the growth in employers.

We have:

a. **Noted** the draft Charging Policy; and
b. **Delegated** to the Group Director, Resources and Strategy the approval of the final Charging Policy following consultation with Scheme Employers.

b) Administrative Team workload

Due to the implementation of the new Local Government Pension Scheme 2014, together with the impact and pending impact of the Public Service Pension Act 2013, there was a considerable pressure on existing resources within the Pension Team and management of Transactional Services. The delivery of the work plan would be completed within existing resources, subject to engaging the Fund Actuaries to support with specialist advice and guidance. Delivering the work plan within existing resources would have an impact upon measured performance indicators in 2014/15.

A plan of work had already started and would be delivered by the end of March 2015. This would be brought back to us and monitored during the current year.

We have;

a) **Noted** the Administrative Team work plan for 2014/5: and
b) **Noted** that further progress updates monitoring the work plan would be brought back to Committee.

10 **LOCAL GOVERNMENT PENSION SCHEME REGULATIONS ADMINISTERING AUTHORITY'S POLICIES 2014**

Officers have advised that under the Local Government Pension Scheme (LGPS) regulations the London Borough of Havering, as the administering authority of the Havering Pension Fund, have been given some responsibilities and discretions. Some of these discretions had last been reviewed in March 2010 and had now been updated following the regulations introduced with the LGPS 2014 scheme. A complete review of all the required Administrative Authority discretion decisions and policies had also been undertaken with support for the Fund Actuaries.

The new scheme had been operational from 1 April 2014 and there was a regulatory requirement under the LGPS 2013 (Regulation 60) and Transitional Regulations 2014 (Schedule 2, Paragraph 2) for the administering authority to agree the new and revised discretion decisions and a Policy Statement before the 1st July 2014. It had been also understood that where the 1st July was not achievable the Pension Regulator would only seek assurance that the employer or Administrative

Authority were working towards completing the review of the Policy Statement and discretions.

An in-depth review of the of the discretion decision requirements in following regulations had been carried out:

- Local Government Pension Scheme Regulations 2013;
- The Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014 (The Transitional Regulations);
- The Local Government Pension Scheme (Administration) Regulations 2008 (The Administration Regulations);
- The Local Government Pension Scheme (Benefits Membership and Contributions) Regulations 2007 (The Benefits Regulations);
- The Local Government Pension Scheme (Transitional Provisions) Regulations 2008;
- The Local Government Pension Scheme Regulations 1997;
- The Local Government Pension Scheme Regulations 1995.

Discretion was taken to include where the Administering Authority was required to carry out a task but an element of choice was seen to exist as to how the task was completed.

A number of the discretions were subject to the formulation and publication of a written policy, but there were many more where there was no requirement for a written policy but where there might be an element of choice. The proposed discretion statement included those discretions which required a written policy and those were there might be an element of choice.

We have noted that not all discretions needed to be published; however, it was the intention, for reasons of transparency, to publish the decisions taken in relation to all the available discretions. If the discretion decisions and policies were approved, the discretions would be published on the Havering Pension Fund's website and would be circulated to Employer's participating in the Fund.

Our attention was brought to the following discretion areas, i.e. abatement, Employing authority defunct and Additional Pension contributions.

1. **Abatement**

There was a regulatory change to a previously written discretion relating to the policy to abate (reduce) pensions following re-employment, this was now Regulation 3(13), The Transitional Regulations and was previously Regulation 109 of the Local Government Pension Scheme Regulations 1997 and regulation 70(1) of the 2008 Administration Regulations.

Previously the Council Policy had been to abate the retirement pension when a scheme member who was in receipt of a pension from the Council's Fund entered a local government employment where they were eligible to join the scheme.

Abatement of pensions upon reemployment has been removed from the 2013 Regulations in respect of membership accrued from 1 April 2014.

The abatement policy was still applicable to members (and Councillors if relevant) who left the Scheme before 1 April 2014. Furthermore, the 2014 Transitional Regulations still require a policy on the abatement of the pre 1 April 2014 element of a pension in payment following re-employment.

Abatement could be seen as a protection mechanism for the fund in order to prevent an abuse of early retirement policies (efficiency of service redundancy) in circumstances where those individuals might be re-employed soon afterwards, performing similar roles and responsibilities within the organisation. However, many such redundancies might have been to address real budgetary restraints, but that drops in service levels then required the employers to recruit former staff to realise service improvements and use experience. Abatement was also seen as a disincentive for suitable skilled individuals returning to local government employment, denying employers access to the widest pool of available skilled human resources. Furthermore, with the introduction of flexible retirement into the LGPS, where abatement did not apply, it could also be argued that someone who would be subject to abatement (because they retired outright) was being disadvantaged compared to someone who was able to retire flexibly. Lastly, pension benefits paid under the new LGPS 2014 Regulations are not subject to abatement.

We have agreed, therefore, subject to meeting the requirement to consult with the other scheme employers participating in the Havering Fund, that the policy be amended to:

From 1 April 2014 the revised policy was to not abate or reduce the pensions of former members who became re-employed with regard to any period of membership before that date. Abatement of pension payable should continue in respect of any pensioner member who gained further employment covered by the LGPS before 1 April 2014.

2. Participating Scheme Employer has become Defunct

The regulations required an administering authority to exercise its discretion for some of the employing authority discretions where the participating employer had become defunct. These discretions, in general, deal with the early release of pension benefits and therefore each case should be considered on its individual merits; however, where this would result in a cost for early release, a business case would have to be approved justifying that cost. However, where there was a cost, this cost would have to be spread across all employers.

3. Additional Pension Contributions

Additional Pension Contributions (APC) or Shared Cost Additional Pension Contributions (SCAPC) were used in the new regulations to cover a number of situations where a member, and/or the employer would make payments to cover a shortfall in contributions. These shortfalls could arise from a variety of situations such as maternity leave, paternity leave, adoption leave, unpaid leave and reserve forces leave.

Regulation 16(1) gave the Administering Authority the discretion to refuse to request to pay an APC over a period of time where it was impractical to do so. The discretion decision recommended that this decision was delegated to officers, who would be able to assess any such requests.

APCs would also replace the previous options, known as Added Years and Additional Regular Contributions, allowing members to buy additional membership or pension respectively.

Under the previous regulations where a member had asked to purchase additional membership or pension any application had been subject to receipt of a medical report, confirming the members was in good health. This was because once a contract had started if the member then had to retire on grounds of ill-health, or the member dies, the contract was deemed to be fully paid up. It was therefore recommended that the Committee approve the need for a GPs declaration that the member was in reasonable good health before any such contract was agreed. However, if payment was due to be made in one lump sum no GP declaration would be required since the contract would not be valid unless the payment had been received by the Fund.

Regulation 17(12) introduced a new discretion for the Administering Authority to determine where Additional Voluntary Contributions (AVC) monies should be paid on the death of a member. This was further extending the current provision where the Administering Authority was required to decide to whom a death grant was paid. In order to make timely decisions and payment to beneficiaries it was recommended that the new provision is delegated to officers unless it was a contentious case, which was then referred to the Pension Panel.

4. General Issues

Whilst the list of discretions sets out the general position, the Council must consider every application on its merits. Where there were extraordinary or justifiable circumstances, a departure from the general discretion approach listed might be appropriate.

In reviewing the discretions and making recommendations for the application of the discretions by the Administering Authority, the Fund Actuaries had ensured that each discretion was exercised in a manner that did not 'fetter' the discretion, and ensured decisions taken would review the individual circumstances of each particular case as necessary.

The recommendations also ensured that the discretions were carried out:

- In a fair and reasonable manner;
- Without knee jerk reactions;
- With consistency;
- With flexibility for any peculiar circumstances;
- With potential for review to allow consideration of changes.

The discretions would be reviewed every three years in line with the triennial valuation, to coincide and take account of the results of the valuation. Where there were regulatory and legislative changes that impact on discretions, a review would be carried out on those between valuations under delegation to the Pension Panel.

Having considered the report we have:

a. **Approved** the revised and reviewed Administering Authority's Statement of Policies following the introduction of the Local Government Pension Scheme 2014 (as attached as Appendix 'A' to the report;
b. **Approved** the delegations contained within the Administering Authority's Policy document and discretionary decisions;
c. **Noted** that any major discretionary decisions made by the delegated persons would be reported to this Committee for information on a regular basis;
d. **Noted** that the discretions would be brought to Committee for review following the next triennial valuation, or earlier dependent upon further regulatory changes; and
e. **Approve** the delegation of revisions to the discretions between the three yearly review to the Pension panel where there were regulatory or legislative changes.

11 LOCAL GOVERNMENT PENSION SCHEME GOVERNANCE REFORM 2014

We were advised that the Public Services Pensions Act 2013 ('the Act') had outlined new governance structures for Pension Funds to take effect from 1 April 2015. Under the new structure it was proposed that a Fund Manager should be advised by a Pensions Board which was to consist of a proportionate number of employer and member representatives.

The Act further provided for explicit regulatory oversight of pension schemes by the Pensions Regulator whose role would be to issue Codes of Practice on the governance standards of conduct and general practices expected of local government pension schemes (LGPS).

The changes to the Local Government Pension Scheme came into effect from 1 April 2014 and the Havering Pension Fund had successfully implemented the changes to the scheme.

The stated aim of the whole reform of public sector pensions was to raise the standard of management and administration of public service pension schemes and to achieve a more effective representation of employer and employee interests in that process.

The Government had issued a consultation paper on 23 June 2014 with a response deadline of 15 August 2014. The Council had not submitted a response to the consultation due to the timing of the Committee and the complex issues that would need to have been considered.

Section 4 of The Act required that each pension scheme had a Scheme Manager who would be responsible for administering and managing the Scheme. It had been confirmed that the Scheme Manager would be the Administering Authority and would have the ultimate responsibility for the scheme.

The Scheme Manager was a function which could be delegated under S101 of the Local Government Act 1972. Further, the Act also provided that the two roles of administration and management could be undertaken as separate functions by two scheme managers.

The Scheme Manager would be assisted by the Pensions Board.

Tin the summer of 2013 the Secretary of State for Culture and Local Government had created a Shadow Advisory Board to provide advice to Scheme Managers and Pensions Boards in relation to effective and efficient administration for the scheme. The Shadow Advisory Board has a Governance and Standards Sub-Committee which was currently working with The Pensions Regulator to develop the Code of Practice and subsequently an LGPS specific code. Once the final regulations and the final Code of Practice were published the Administering Authority would have a number of decisions to make in relation to future governance arrangements, including:

- Whether membership of the Pensions Committee and the Pensions Board could be combined or must be separate;

- How to ensure compliance with TPR Code of Practice in particular with requirements for knowledge and understanding of Board members;
- Whether to introduce the new arrangements in advance of the statutory date (assumed to be April 2015) in order to test the appropriateness of the arrangement for the Havering Fund; and
- The extent to which these decisions would be informed by consultation with employers within the Fund and scheme members.

Regulation 106 concerned the establishment of local pension boards.

This would be a board with responsibility for assisting the Scheme Manager in securing compliance with scheme regulations, other legislation and the requirements of TPR. Each Scheme Manager was required to have a separate Pension Board.

The Pension Board was required to include equal numbers of employer and employee representatives. Currently within the Fund there are approaching 30 employers including Academies, a University Technical College, Further Education Colleges and Admission Bodies. There were over 16,900 members and consideration would need to be given as to how best to reflect this number and their variety in the formation of the Board.

The Act further required that those appointed to the Board did not have a conflict of interest requiring each to declare any such conflicts imposing a responsibility on the Scheme Manager to ensure such conflicts did not interfere with the ordinary course of the Fund's business.

Section 5(7) of the Act enabled subsequent legislation to provide that the Scheme Manager, where this had been delegated to a Committee, to also be the Pensions Board.

Having considered the report we have:

1. **Noted** the report and that further information would be provided as it becomes available;
2. **Agreed** to the creation of a joint Governance Reform Working Party with officers from the London Borough of Newham, as a joint oneSource arrangement;
3. **Agreed** that the remit of the Joint Working Party be as set out in the report; and
4. **Delegated** to the Transactional Manager the responsibility to manage the Working Party going forward.

12 PROCUREMENT OF ACTUARIAL SERVICES TO THE PENSION FUND

Officers advised that the contract for the Pension Fund Actuary (with Hymans Robertson LLP) was due to expire on 31 March 2015, having been extended for one year from 1 April 2014 as per the original tender for the contract that commenced in April 2010.

Having considered the report we have:

1. Delegated to officers the authority to undertake the procurement of the actuarial service provider; and
2. Delegated to the Group Director Strategy and resources the authority to award the contract at the completion of the procurement process.

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Chairman