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**MINUTES OF A MEETING OF THE  
PENSIONS COMMITTEE  
Committee Room 3A - Town Hall  
22 November 2016 (7.00 - 7.25 pm)**

**Present:**

**COUNCILLORS**

**Conservative Group**            John Crowder (Chairman) and Jason Frost

**Residents' Group**            Nic Dodin and Stephanie Nunn

**East Havering  
Residents' Group**            Clarence Barrett

**UKIP Group**                    David Johnson (Vice-Chair)

**Trade Union Observers:**    Andy Hampshire

Apologies were received for the absence of Councillor Melvin Wallace, John Giles, (UNISON) and Heather Foster-Byron (Scheduled/Admitted Bodies).

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

**21    MINUTES OF THE MEETING**

The minutes of the meeting of the Committee held on 20 September 2016 were agreed as a correct record and signed by the Chairman.

**22    SERVICE REVIEW OF THE PENSION FUND CUSTODIAN**

Officers informed the Committee that they had undertaken a review of the performance of the Pension Fund's Custodian, State Street. State Street had performed the role of Custodian since 31 December 2004. The role of the Global Custodian falls in to two main categories:

- Safe Keeping and Custody; and
- Investment Accounting and Reporting.
  
- **Safe Keeping and Custody**

This referred to the maintenance of accurate records and certificates of the ownership of stock and ensuring that dividend income and other distributions were received appropriately. The Custodian had also managed the tax position of the fund, claiming back any recoverable overseas,

withholding tax paid on dividends received and maintaining the tax records of the fund.

- **Investment Accounting and Reporting**

State Street had produced accounting reports that were similar to those produced by the fund's investment managers. They had kept a record of the book costs and the holdings in the various asset classes and had also provided an independent market valuation of the fund. This has been done for each of the investment managers' portfolio as well as at the total fund level. State Street records have, therefore, been considered to be master records and these records had been used for producing the accounts. Reports currently produced by State Street had been in a format that could be used to comply with the International Financial Reporting Standards (IFRS).

Performance had been reviewed against a number of set criteria and officers had indicated that they were satisfied with the safe keeping and custody functions provided by State Street custodians and had been pleased with the investment accounting and reporting functions.

Officers had identified issues with a number of reconciliations, however, they were confident that these could be resolved with State Street.

The Committee have been advised that the cost of the custodian service has been reduced in recent years due to the fund's use of pooled funds which consequently have reduced the custody and transaction changes.

The Committee **noted** the report.

## 23 **INVESTMENT ADVISOR SERVICE REVIEW AND CONTRACT EXTENSION**

Officers had reported that they had carried out a review of the services provided by the Pension Fund's Investment Advisor, Hymans Robertson, for the period September 2014 to September 2015.

Myner's principles number 2 recommended that the Committee, in setting out its overall objective for the Fund, should take proper advice and appoint advisors in open competition. Hymans Robertson had been appointed in 2012 and the contract ran until 31<sup>st</sup> March 2017 unless terminated or extended by the Council in accordance with the terms of the contract.

The contract could be extended for an additional period of up to two years with the written consent of both parties, no later than three months before expiry.

The services provided by Hymans Robertson had been generally in relation to the core services which included production of quarterly monitoring performance reports, attendance at Pensions Committee and providing

questions for officer meetings with fund managers, investment advice and monitoring of fund managers. Additionally, Hymans Robertson had carried out a due diligence review of the London CIV (Collective Investment Vehicle) prior to the initial transfer of assets to the London CIV and provided advice on the purchase of additional units in the Fund's property portfolio. These additional tasks represented an extra cost to the fund.

The assessment of the service was against a set of criteria defined as part of the tender specification as set out below:

- Attendance at Committee Meetings;
- Investment Advice;
  - Setting Investment Strategy;
  - Investment Management structure;
  - Appointing an investment Manager;
  - Monitoring an investment Manager;
  - Other responsibilities (advising on statement of investment principles, custody, setting investment guidelines etc.);
- The value they will/could add to the decision making process;
- The level of Pro-Activity expected from the adviser; and
- Support arrangements.

The cost of the Investment Advisor for the period October 2015 to September 2016 has been £32,755, £28,255 for core services and £4,500 for the additional services. The cost of the additional services had been kept within budget.

Both officers and the Committee had indicated that they were satisfied with the service provided by Hymans Robertson and had continued confidence in the advice being given.

The Committee had two options with regard to the current contract:

- Grant contract extensions for any period up to two years from 1 April 2017 on the existing contract; or
- Re-tender for a new contract to commence from 1 April 2017.

Officers had advised the Committee that the 1 April 2017 deadline conflicted with a number of external priorities (pooling, MiFIDII and new investment regulations) and therefore they were recommending that the existing contract be initially extended for a period of one year.

The National LGPS Framework were about to commence appointing to a new investment consultancy contract and this was likely to be made available from April 2017. The contract would be for a period of at least seven years and likely to be broken up into separate lots to make the new contract more flexible and more future proof. If the Committee extended the existing contract for one year it would give officers the time to consider the flexibility of the variety of lots on offer and assess whether there was merit

and value for money in undertaking this process jointly with our oneSource partners whose own Investment Advisor contract would be considered for renewal in the same time frame.

The Committee:

1. **Noted** the report; and
2. **Approved** a one year extension of the existing contract for the provision of Investment Advice from Hymans Robertson LLP for the period April 2017 to March 2018.

## 24 **REVIEW OF GOVERNANCE COMPLIANCE STATEMENT**

Officers had informed the Committee that in line with the Local Government Pensions Scheme Regulations (LGPS) 2013 as amended by the LGPS (Governance) Regulations 2015 the London Borough of Havering as an administering authority had a duty to keep the Governance Compliance Statement under review and make revisions as appropriate.

Since the 1 April 2008 it had been a requirement for the administering authority to prepare and publish a report outlining the extent of compliance against a set of best practice principles published by the Department of Communities and Local Government (DCLG).

The report had set out the Pension Fund's draft Governance Compliance Statement for November 2016 and had highlighted where changes might be required.

Changes to the Statement had been made to reflect the changes in Committee membership following Annual Council in May 2016.

Officers had highlighted the fact the Statement was not fully compliant against the set of best practice principles. Principle B - Representation item (a) (iii) stated that 'to meet the required standards all stakeholders are offered the opportunity to be represented by, where appropriate, appointing independent observers.'

The Committee **reaffirmed** their previous decision not to employ the services of an independent professional observer on the basis that the current monitoring arrangements were sufficient for the size of the funds.

The Committee had been informed that in October 2016 AON Hewitt, with support from CIPFA had developed guidance to support the Local Government Pension Scheme (LGPS) in demonstrating good practice governance during the implementation of, and when participating in, LGPS asset pooling arrangements. The guidance had suggested reviewing the wording of the Local Authority's constitution and/or the Terms of Reference for the Pensions Committee to consider whether they may need to be refined to adapt with the new investment pooling arrangements. Any

changes required would be reflected in the next review of the Governance compliance statement.

In the interim the Committee **agreed** that the Council's representative on the CIV should report back to this Committee on the decisions taken by the CIV.

The Committee have **agreed** the Statement as amended.

## 25 **WHISTLEBLOWING REQUIREMENTS OF THE PENSIONS ACT**

The Committee had been reminded that on 6 April 2005 the whistle blowing requirements of the Pensions Act 2004 had come into force. The basic requirement of this law was that nearly all persons who were involved with a pension scheme had a duty to report 'as soon as reasonably practicable' to the Pensions Regulator where they had 'reasonable cause to believe' that there had been a breach of law 'relevant to the administration of the scheme' which was 'likely to be of material significance to the Regulator'. The Pensions Regulator had issued a Code of Practice (CP1) that set out guidance on how to comply.

The Code has discussed each of these issues, in particular what the regulator saw as materially significant.

For administering authorities and employers, an initial requirement had been to establish procedures to identify any breaches, and then evaluate and if appropriate report to the Regulator. These have been put in place during 2005 and part of this procedure was to undertake an annual review. This report represented the annual review for the year up to 30 September 2016.

Since the requirement had come into force on the 5 April 2005, no possible breaches have been reported to the named officer.

The Committee have **noted** the report.

## 26 **SERVICE REVIEW OF ACTUARY**

Officers reported that they had undertaken a review of the performance of the Pension Fund's Actuary, Hymans Robertson, for the period 1 October 2015 – 30 September 2016.

The Havering Pension Fund had joined the Croydon Framework in March 2015 to obtain Actuarial and Benefits Consulting Services. Hymans Robertson had been the appointed Actuary under this framework agreement. The contract expired on 31 March 2018. Hyman's had been the Funds Actuary since April 2010 and no changes had been made to the Hymans contacts as part of joining the Croydon framework but the Pension Fund had benefited from savings in procurement costs and fees.

The framework had also addresses the issues of:

- allowing authorities the opportunity to work together on a range of projects, sharing knowledge and costs to achieve common goals at a fraction of the costs that would otherwise be incurred and to focus;
- meeting the governments encouragement for greater efficiencies in the administration of pensions and the Framework was designed to help meet those efficiencies together as part of the Croydon Framework.

The following criteria had been used for the contract evaluation:

- (a) Internal quality control procedures;
- (b) Management processes that maintain the knowledge and expertise in depth to support the contract;
- (c) Ability to work to tight deadlines; and
- (d) Demonstrate long term commitment to Local Government.

The contract had set out a detailed service specification for the Actuarial Valuation Service and other actuarial services required. Other actuarial services included:

- (e) meeting the requirements of FRS 17/IAS19;
- (f) admission of new bodies to the fund, including recommended employer contributions and bond assessments;
- (g) providing actuarial factors to enable the calculation of early or ill health retirements; and
- (h) advice and the provision of up-to-date information on topical issues.

The production of the triennial valuation was the key deliverable from the Actuary, together with regular funding updates and annual calculations required for the Council's statement of accounts under the Code of Practice on Local Authority Accounting. The last valuation had been at 31 March 2016 and the results were still awaited ad due in December 2016.

The Actuary had also provided advice regarding changes in legislation affecting the Pension Fund, reviews guidance, and provided scheduled and admitted body contribution rates and other calculations as required.

Since April 2015 the Actuary had undertaken the following:

**2016 Formal Valuation**

- Preparatory work for the 2016 valuation
- Preparation of letter outlining GAD section 13 valuations and what this means for the Fund
- Attendance at pre valuation meeting on 22 October 2015, including projected results for the valuation
- Provision of 2016 valuation guide

- Attendance at valuation meeting on 24 February 2016 to discuss possible contribution strategies for the Fund and to begin scoping an the ALM
- Continued liaison with GAD and software providers regarding the new universal data capture, including testing and feedback
- Attendance at meeting to discuss section 13 results on 26 July 2016
- Provision of salary growth analysis paper to evidence changes to the salary assumption
- Assistance with Whole Fund data cleansing including correcting software provider issues
- Whole Fund data reconciliation, calculations and initial results
- Asset liability modelling to assist setting the Council contribution rates and checking the investment strategy continues to underpin the contribution plan
- Attendance at meeting on 1 September 2016 to discuss initial results and asset liability modelling
- Further asset liability modelling of alternative scenarios
- Calculation of SAB standard funding ratio, including provision of actuarial certificate before the SAB deadline

### **Employers**

- Final cessation valuations for Havering Citizens Advice Bureau and KGB Cleaners
- Indicative cessation valuation for Family Mosaic
- Advice on cessation valuation options for May Guerne
- Provision of bond and contribution rate assessments, including ill-health budgets, relating to Accent Catering and Breyers
- Provision of contribution rate assessments for academies, including ill-health budgets, relating to Brookside Infants, Ravensbourne and Benhurst
- Recommendations on contribution rate for Drapers Maylands
- Work over the period to complete the bulk transfer of Elutec to London Borough of Barking and Dagenham Pension Fund

### **Governance**

- Advice regarding the register of members' interest
- Advice on service restructuring and governance compliance

### **Training**

- Delivered staff training on outsourcing

### **Accounting**

- Produced IAS19 and IAS26 disclosures for the London Borough of Havering and FRS17/102 disclosures for the Colleges and Academies;
- Produced the actuarial statement for the statement of accounts;

**General**

- Provision of newsletters and help with publications including:
  - High Earners tax newsletter
  - Review of Conflict of Interest policy
  - Regular legislative updates, 60 second Summaries, Briefing notes

The cost of the actuarial services were:

- 1 October 2015 to 31 March 2016           £44,155
- 1 April 2016 to 30 September 2016       £81,370

In addition, fees, including actuarial work had been recharged to other employees within the fund, as follows:

- 1 October 2015 to 31 March 2016           £24,943
- 1 April 2016 to 30 September 2016       £32,620

The increase in fees during this period could be accounted for by the triennial valuation.

The Committee were advised that Officers were very satisfied with the services provided by Hymans Robertson and accordingly have **noted** the report.

**27   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.**

**28   EXEMPT MINUTES OF THE MEETING**

The exempt minutes of the meeting of the Committee held on 20 September 2016 were agreed as a correct record and signed by the Chairman.

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**Chairman**