



Havering

LONDON BOROUGH

HAVERING PENSION FUND

**BUSINESS PLAN/REPORT ON THE WORK
OF THE
PENSIONS COMMITTEE
DURING
2012/13**

INTRODUCTION

The Havering Pension Fund (the Fund) provides benefits to Council employees (except teachers). The performance of the Fund impacts on the cost of Council services through the cost of employer contributions. It is therefore beneficial to issue a Business Plan/Annual report to all Council Members on the Havering Pension Fund and the work of the Pensions Committee.

The Business Plan looks forward over the next three years and will be reviewed and updated annually.

This report also covers the period 1st April 2012 to 31st March 2013 and outlines:

- The work of the Pensions Committee
- Key issues arising during the course of the year

The financial position and the performance of the Havering Pension Fund for 2012/13 is featured as part of the formal Annual Report of the Fund itself and not included here. The Annual Report is prepared later in the year when the pension fund accounts have been finalised.

BACKGROUND TO THE PENSION FUND

The Council is an Administering Authority under the Local Government Pension Scheme Regulations and as such invests employee and employer contributions into a Fund in order to pay pension benefits to scheme members. The Fund is financed by contributions from employees, employers and from profit, interest and dividends from investments.

The Pension Fund has a total of 24 employers, of which the London Borough of Havering is the largest. The other employers in the fund are made up of 16 Scheduled bodies (Academies and Further Education bodies) and 7 Admitted bodies (outsourced contracts).

The Council had delegated the responsibility for investment strategy and performance monitoring to the Pensions Committee.

The Havering Pension Fund has adopted a benchmark for the overall fund of Gilts + 1.8% (net of fees). The Fund had five different fund managers (who have specific mandates) during 2012/13 and performance is monitored against an agreed benchmark. In 2012/13, the overall return on the fund's investments was 14.2% (4.2% in 2011/12). This represented an over performance of 1.1% against the tactical benchmark (-0.6% in 2011/12) and an over performance of 2.9% against the strategic benchmark (-16.9% in 2011/12).

During 2012/13 work continued to rebalance the Fund in line with November 2011 Statement of Investment Principles (SIP) and the Interim Strategy adopted in December 2012 and later revised in March 2013:

- Following their appointment in December 2011, Baillie Gifford - Global Equity Manager commenced trading in April 2012. This was funded from withdrawing holdings from UK Equities, Bonds and the UK/Global Passive equities.
- In May 2012 funds were transferred from surplus cash to increase the holdings with the Property Manager.
- During 2012/13 the Fund undertook a full review of the SIP and whilst this was on-going members agreed an interim change to the strategy which would initially increase the asset allocation to the Absolute Return Manager from 10% to 15%. This was funded from reducing the asset allocation to the passive Global Equities Manager. The interim strategy was adopted in December 2012.
- The revised SIP was adopted on the 26 March 2013 and it was agreed that an allocation of 35% would be allocated to multi asset strategies and funded by a reduction in equities. The search for two multi asset strategy managers was started in April 2013 and it is anticipated that this will be completed by the end of September 2013. Once the multi-asset managers are appointed the actual asset allocation will reflect the March 13 SIP.

The fund managers and percentage allocation of assets of the fund as at March 2013 was as follows:

Manager	% Allocation	Mandate	Tactical Benchmark (what managers are measured against)	Out performance Target
Standard Life	18.7%	UK Equities	FTSE All Share Index	2%
State Street (SSgA)	24.1%	UK/ Global Equities - Passive	UK – FTSE All Share Index Global (ExUK) – FTSE All World Ex UK Index MSCI All World Index	To track the benchmark
Royal London Asset Management	21.5%	Investment Grade Bonds	<ul style="list-style-type: none"> • 50% iBoxx Sterling Non Gilt Over 10 Year Index • 16.7% FTSE Actuaries UK Gilt Over 15 Years Index • 33.3% FTSE Actuaries Index-Linked Over 5 Year Index 	0.75%
UBS	4.9%	Property	IPD (previously called HSBC/AREF) All Balanced Funds Median Index	To outperform the benchmark
Ruffer	14.1%	Multi Asset	Not measured against any market index – for illustrative purposes LIBOR (3months) +4%	To outperform the benchmark
Baillie Gifford	16.7%	Pooled Global Equities	MSCI All World Index	1.5% – 2%.over a rolling 5 year period

Fund Managers present performance updates on a quarterly basis. They report every 6 months at the Pensions Committee and on alternate quarters meet with officers for an informal meeting, with the exception of Ruffer and State Street who will attend two meetings per year (one with officers and one with the committee).

The Fund also uses the services of WM Performance Measurers to independently report on fund manager performance.

FUND GOVERNANCE STRUCTURE

Day to day management of the fund is delegated to the Group Director of Finance and Commerce. As already stated investment strategy and performance monitoring of the fund is a matter for the Pensions Committee which obtains and considers advice from the authority's officers, and as necessary from the Fund's appointed professional adviser, actuary and performance measurers who attend meetings as and when required.

The membership of the Pensions Committee reflects the political balance of the Council and the structure of the Pensions Committee during the period April 2012 to March 2013 was as follows:

Cllr Melvin Wallace (Chair) – Conservative Group
 Cllr Rebecca Bennett (Vice Chair) – Conservative Group
 Cllr Roger Ramsey– Conservative Group
 Cllr Eric Munday – Conservative Group
 Cllr Ron Ower – Residents Group
 Cllr Pat Murray – Labour Group
 Cllr Jeffrey Tucker – Independent Local Residents Group
 Union Members (Non-voting) - John Giles (Unison), Andy Hampshire (GMB)
 Admitted/Scheduled Body Representative (voting) – Marilyn Clay – Champion Academy (appointed from December 12)

There were some changes made to the elected members of the committee due to Councillor Munday taking on the role of Mayor. From May 2013 the voting Committee members were as follows:

Cllr Rebecca Bennett (Chair) – Conservative Group
 Cllr Melvin Wallace (Vice Chair) – Conservative Group
 Cllr Roger Ramsey– Conservative Group
 Cllr Steven Kelly - Conservative Group
 Cllr Ron Ower – Residents Group
 Cllr Pat Murray – Labour Group
 Vacant – Independent Local Residents Group
 Marilyn Clay – Employer Representative

Fund Administrator	London Borough of Havering
Actuary	Hymans Robertson
Auditors	PricewaterhouseCoopers LLP (PWC)
Performance Measurement	WM Company
Custodians	State Street Global Services
Investment Managers	Standard Life Investments (UK Equities) Royal London Asset Management (Investment Bonds) Alliance Bernstein Institutional Investors until February 2011(Global Equities) UBS (Property) State Street Global Assets from September 2010 (UK/Global Equities – passive) Ruffer LLP from September 2010 (Multi Asset) Baillie Gifford (Global Equities) from April 2012
Investment Advisers	Hymans Robertson
Legal Advisers	London Borough of Havering Legal Services provide legal advice as necessary (specialist advice is procured as necessary)

The terms of reference for the committee are:

- To consider and agree the investment strategy and statement of investment principles (SIP) for the pension fund and subsequently monitor and review performance
- Authorise staff to invite tenders and to award contracts to actuaries, advisers and fund managers and in respect of other related investment matters
- To appoint and review the performance of advisers and investment managers for pension fund investments
- To take decisions on those matters not to be the responsibility of the Cabinet under the Local Authorities (Functions and Responsibilities)(England) Regulations 2000 relating to those matters concerning pensions made under Regulations set out in Sections 7, 12 or 24 of the Superannuation Act 1972

PENSION COMMITTEE MEETINGS 2012/13

The Committee met a number of times during 2012/13 and **Annex A** sets out the coverage of matters considered, but the key issues that arose in the period or since the last business plan was produced are shown below:

Key issues arising in the period

- **Investment Strategy Review**

A lot of work was undertaken to review the investment strategy, which resulted in introducing an asset allocation to multi asset strategies and agreed that this will be funded by reducing direct holding in Equities. Members also decided to introduce an exposure to local infrastructure.

- **Agreed 2011/12 Pension Fund Accounts**

- **Annual Report**

The Pension Fund Annual Report 31 March 2012 was produced and agreed in line with the LGPS (Administration) regulations.

- **Governance Policy**

In line with the 2008 Local Government Pension Scheme (LGPS) the committee undertook an annual review of the Pension Fund's Governance Compliance Statement.

- **Statement of Investment Principles**

In line with the 2009 Local Government Pension Scheme (LGPS) and following the investment strategy review, the committee updated the Statement of Investment Principles.

- **Whistleblowing Requirements of the Pensions Act**

An annual review was undertaken and no issues were reported.

- **Business Plan**

The Pension Fund Business Plan for 2011/12 was agreed incorporating the work of the pension committee members.

- **Reviewed Fund Managers quarterly performance**

- **Reviewed performance of the Pension Fund’s Custodians, Investment Advisor and Actuaries**

PENSION COMMITTEE MEETINGS 2013/14 AND ONWARDS

In addition to the annual cyclical work programme as shown in **Annex C** there are a number of issues that are likely to be considered by the Pensions Committee in the coming year and beyond:

- The new LGPS scheme being introduced from April 2014
- Implementation of the investment Strategy Review - including interviewing for potential multi asset managers.
- Consideration of the outcomes of the funding Valuation 2013 and agreeing new employer rates for the fund.
- 2014 is an election year so there is a possibility of member changes and training of new committee members.
- Topical issues discussed as appropriate.

INTERNAL & EXTERNAL RESOURCES

The Pensions Committee is supported by the administrating authorities’ finance and administration services and the associated costs are therefore reimbursed to the administrating authority by the Fund. The costs for these services form part of the Administrative and Investment Management expenses as reported in the Pension Fund Statement of Accounts. Estimates for the medium term on Administration and Investment Management expenses follow in this report.

The Pensions Administration service consists of an establishment of 9.8 full time equivalent posts.

The Finance service that supports the pension fund consists of an establishment of 1.5 full time equivalent posts.

FINANCIAL ESTIMATES

Administrative Expenses

	2011/12 Actual £000's	2012/13 Actual £000's	2013/14 Estimate £000's	2014/15 Estimate £000's	2015/16 Estimate £000's
Administration & Processing	522	566	736	630	630
Actuarial Fees	9	30	30	30	30
Audit Fees	35	21	21	21	21
Other Fees	5	5	5	5	5
Other Costs	15	10	10	10	10
TOTAL	586	632	802	696	696

The Administration and Processing costs will increase from 2013/14 due to the purchase of an upgraded pension Administration system called ALTAIR from Heywood Limited. The contract is for five years but the 1st year costs include the implementation costs and an upfront licensing fee.

Investment Management expenses

	2011/12 Actual £000's	2012/13 Actual £000's	2013/14 Estimate £000's	2014/15 Estimate £000's	2015/16 Estimate £000's
Administration, Management & custody	1,053	1,063	1,100	1,100	1,100
Performance Measurement services	12	12	12	12	12
Other Advisory Fees	73	72	70	70	70
TOTAL	1,138	1,147	1,182	1,182	1,182

Please note the following regarding the above figures

- Takes no account of any inflationary increases
- Management and custody fees are charged according to the fund value; therefore an average figure has been applied for 2013/14 onwards.
- Based on 2012/13 fund and staffing structures.

TRAINING AND DEVELOPMENT STRATEGY

Long membership of the committee is encouraged in order to ensure that expertise is developed and maintained within. The Council recommend that the membership of the Pension Committee remain static for the life of the term in Council, unless exceptional circumstances require a change.

Training and development took place during 2012/13 to ensure that Members of the Committee were fully briefed in the decisions they were taking.

CIPFA's knowledge and Skills self assessment training questionnaire was distributed to members in January 2011 and the common training requirements identified from these questionnaires covered the following areas:

- Investment Strategy – more awareness of the limits placed by regulations on investments within the LGPS
- Outsourcing – pension considerations in relation to outsourcing and Bulk transfers.
- Scheme specific legislation – more knowledge on the features covering the main features of the benefit side of the LGPS.

The Investment Strategy and Outsourcing training took place during 2012/13 and training regarding the benefits side of the LGPS will take place when the new LGPS scheme is introduced from April 2014.

Training logs are maintained and attendance and coverage can be found in **Annex B**.

The Fund uses the three day training courses offered by the Local Government Employers (LGE) which is specially targeted at elected members with Pension Fund responsibilities. All new members are encouraged and given the opportunity to attend.

Members receive briefings and advice from the Funds Investment adviser at each committee meeting.

The Fund is a member of the CIPFA Pensions network which gives access to an extensive programme of events, training/workshops, weekly newsletters and documentation, including briefing notes on the latest topical issues.

The Pension Fund Accountant also attends quarterly forum meetings with peers from other London Boroughs; this gives access to extensive opportunities of knowledge sharing and benchmarking data.

TRAINING PLAN FOR 2013/14 and ONWARDS

Associated training will be given when required which will be linked to the Pension Fund meeting cyclical coverage for 2013/14 as shown in **Annex C**.

In addition to the cyclical meeting as shown in Annex C, special pension committee meetings will be arranged from time to time to discuss matters that fall outside of the cyclical meetings.

Training will be targeted as appropriate.

PENSIONS COMMITTEE MEETINGS HELD DURING 2012/13

ANNEX A

MONTH	TOPIC	ATTENDED BY
27 June 2012	<ul style="list-style-type: none"> Noted the Fund's External audit Plan for the 2011/12 accounts Pension Fund Performance Monitoring for the quarter ending 31 March 2012 Agreed the adaptation of an internal Pension fund Cash Management Policy. 	Cllr Becky Bennett (chair) Cllr Georgina Galpin (sub for Melvin Wallace) Cllr Roger Ramsey John Giles (UNISON) Andy Hampshire (GMB)
30 August 2012 (SPECIAL)	<ul style="list-style-type: none"> Agreed to admit Innovate to the Pension Fund 	Cllr Melvin Wallace Cllr Eric Munday Cllr Georgina Galpin (sub for Roger Ramsey) Cllr Pat Murray Andy Hampshire (GMB)
25 September 2012 (SPECIAL)	<ul style="list-style-type: none"> Considered and noted the 2011/12 unaudited accounts 	Cllr Becky Bennett (chair) Cllr Georgina Galpin (sub for Melvin Wallace) Cllr Eric Munday Cllr Steven Kelly (sub for Roger Ramsey) Cllr Denis Breeding (sub for Pat Murray) John Giles (UNISON) Andy Hampshire (GMB)
02 October 2012	<ul style="list-style-type: none"> Noted the Business Plan/Annual Report on the work of the Pensions Committee 2011/12 Pension Fund Performance Monitoring for the quarter ending 30 June 2012 Noted the initial analysis of Investment Strategy Review 	Cllr Melvin Wallace (chair) Cllr Becky Bennett (vice chair) Cllr Georgina Galpin (sub for Eric Munday) Cllr Roger Ramsey Cllr Ron Ower Cllr Pat Murray John Giles (UNISON)
31 October 2012	<ul style="list-style-type: none"> Reviewed Pension Fund's Governance Compliance Statement 2012 Noted Whistleblowing Report Reviewed the services of the Pension fund Actuary Reviewed the services of the Pension Fund Custodian Reviewed the services of the Pension fund Investment Advisor Agreed Pension Fund Annual Report – Year ended 31 March 2012 	Cllr Melvin Wallace (chair) Cllr Becky Bennett (vice chair) Cllr Eric Munday Cllr Roger Ramsey Cllr Clarence Barrett (sub for Ron Ower) Andy Hampshire (GMB)
27 November 2012 (SPECIAL)	<ul style="list-style-type: none"> Discussed the analysis and modelling for the Investment Strategy Review Considered the DCLG consultation 'Investment in Partnership' which sought views in whether any regulation changes were required to remove barriers preventing pension funds investing in infrastructure 	Cllr Melvin Wallace (chair) Cllr Georgina Galpin (sub for Eric Munday) Cllr Roger Ramsey Cllr Ron Ower Cllr Pat Murray John Giles (UNISON) Marilyn Clay – employer representative as observer

PENSIONS COMMITTEE MEEETINGS HELD DURING 2012/13

ANNEX A

MONTH	TOPIC	ATTENDED BY
12 December 2012	<ul style="list-style-type: none"> • Pension Fund Performance Monitoring for the quarter ending 31 September 2012 • Noted the impact of Auto Enrolment • Agreed Interim amendment to Statement of Investment Policy 	Cllr Melvin Wallace (chair) Cllr Georgina Galpin (sub for Becky Bennett) Cllr Eric Munday Cllr Roger Ramsey Cllr Clarence Barratt (sub for Ron Ower)
26 March 2013 (Earlier start time of 6:30pm)	<ul style="list-style-type: none"> • Pension Fund Performance Monitoring for the quarter ending 31 December 2012 • Noted Automatic Enrolment implementation progress • Considered and agreed the Communication Strategy 2013-2015 • Considered Briefing report on impact of the Public Services Pensions Bill • Agreed the Statement of investment Principles 	Cllr Melvin Wallace (chair) Cllr Fred Thompson (sub for Becky Bennett) Cllr Eric Munday Cllr Roger Ramsey Cllr Ron Ower Cllr Pat Murray observer until 7:45pm Cllr Denis Breading (sub for Pat Murray from 7:45pm) John Giles (UNISON) Andy Hampshire (GMB)

- Please note that three members constitute a quorum.
- Target dates for issuing agendas were met.

PENSIONS COMMITTEE MEMBER TRAINING 2012/13

ANNEX B

DATE	TOPIC COVERED	LOCATION	COST	ATTENDED BY
30 May 2012	Baillie Gifford – ‘Global Investor Roundtable’ – our newly appointed Global Equity Manager explaining longer term investment opportunities	Corinthia Hotel, London	Free	Cllr Wallace
14 June 2012	CIPFA – Delivering Training on ‘Introduction to the LGPS’, covered key themes: <ul style="list-style-type: none"> • Background, Regulations and Governance of the LGPS • Managing Scheme Liabilities • Audit and Accounting Requirements • Developing investment Strategies 	Canary Wharf, London	Included in subscription)	Cllr Murray Cllr Breeding Cllr Wallace
26 June 2012	Pensions overview delivered by Pension Fund Accountant	Central Library	Officer Time	Cllr Bennett
27 June 2012	Hymans – Fund’s Advisor delivering training on Investment Strategy Review – covered: <ul style="list-style-type: none"> • Understanding the importance of an investment strategy • Why periodic review is sensible • How a review may be undertaken and included issues to consider and include. 	Town Hall – prior to Pensions Committee meeting	Included as part of the fee schedule	Cllr Bennett Cllr Ramsey Cllr Galpin John Giles (UNISON) Andy Hampshire
6 September 2012	Pensions overview delivered by Pension Fund Accountant	Central Library	Officer time	Cllr Pat Murray
18/20 September 2012	Briefing sessions on Statement of Accounts (inclu, Pension Fund) – delivered by Mike Board and Debbie Ford	Town Hall	Officer Time	Cllr Galpin Cllr Ramsey Cllr Breeding Cllr Murray
02 October 2012	Hymans- Fund’s actuary delivered training covering: <ul style="list-style-type: none"> • Pensions issues, impact on Transferring Local Government Employees (Admitted Bodies) 	Town Hall – prior to Pensions committee meeting	£2,750	Cllr Galpin Cllr Wallace Cllr Ramsey Cllr Bennett Cllr Ower Cllr Murray (part) John Giles (UNISON)
01 November 2012	Infrastructure roundtable – delivered by Partners Group	Heron Tower, London	Free	Cllr Wallace Cllr Munday

PENSIONS COMMITTEE MEMBER TRAINING 2012/13

ANNEX B

DATE	TOPIC COVERED	LOCATION	COST	ATTENDED BY
16 November 2012	Ruffer conference	London	Free	Cllr Wallace Cllr Munday
27 November 2012	Hymans – Fund’s Advisor delivering follow up training on Investment Strategy Review - covered: <ul style="list-style-type: none"> • Objectives and initial conclusions • Understanding the current issues (low yields, weak funding level, stagnant economic conditions and negative cash flow) • Strategy Proposals – up for discussion 	Town Hall – as part of the Special Pensions Committee meeting	Included as part of the fee schedule	Cllr Wallace Cllr Ramsey Cllr Murray Cllr Ower Cllr Galpin John Giles (UNISON) Marilyn Clay (employer representative)

INDICATIVE PENSIONS COMMITTEE CYCLICAL MEETINGS AND COVERAGE 2013/14

ANNEX C

	JUNE 2013	SEPTEMBER 2013	NOVEMBER 2013	DECEMBER 2013	MARCH 2014
Formal Committees with Members	<ul style="list-style-type: none"> ▪ Overall Monitoring Report on Pension Fund to end of March 13: a) Property Manager b) Multi Asset Manager c) Pooled Global Equity Manager ▪ External Audit Plan 2012/13 	<ul style="list-style-type: none"> ▪ Overall Monitoring Report on Pension Fund to end of June: a) UK Equities Manager b) UK Bonds Manager ▪ Pension Fund Accounts 12/13 ▪ Business/Work Plan inc. work of the committee 	<ul style="list-style-type: none"> ▪ Annual review of Custodian ▪ Annual review of Adviser ▪ Annual review of Actuary ▪ Review of Governance Policy ▪ Whistleblowing Annual Assessment ▪ Administration Strategy (regs change) if necessary ▪ Pension Fund Annual Report 	<ul style="list-style-type: none"> ▪ Overall Monitoring Report on Pension Fund to end of September: a) Property Manager b) Passive Equity Manager c) Pooled Global Equity Manager • Review of Funding Strategy Statement • Valuation 2013 results 	<ul style="list-style-type: none"> ▪ Overall Monitoring Report on Pension Fund to end of December: a) UK Equities Manager b) UK Bonds Manager:
Officer Meeting	Meeting: 20 May 13 <ul style="list-style-type: none"> ▪ UK Equities ▪ UK Bonds ▪ Passive Equity Manager 	Meeting: 19 Aug 13 (am) <ul style="list-style-type: none"> ▪ Property ▪ Global Equity ▪ WM presentation Meeting • Advisor Review (TBC) • Custodian Review (TBC) 	No meeting	Meeting: 15 Nov 13 (pm) <ul style="list-style-type: none"> ▪ UK Equities ▪ UK Bonds Manager 	Meeting: 25 Feb 14 (am) <ul style="list-style-type: none"> ▪ Property ▪ Multi Asset Manager ▪ Global Equities
Training	Associated Training	Associated Training	Associated Training	Associated Training	Associated Training