



Havering

LONDON BOROUGH

PENSIONS COMMITTEE

AGENDA

1.00pm

Tuesday,
16 March 2010

Havering Town Hall,
Main Road, Romford

Members 7: Quorum 3

COUNCILLORS:

Conservative Group

(4)

Robby Misir (Chairman)

Eric Munday (Vice Chairman)

Robert Benham

Melvin Wallace

Residents' Group

(2)

Clarence Barrett

Linda Van den Hende

Independent

Residents (1)

Jeffrey Tucker

Trade Union Observers

(No Voting Rights)

(2)

John Giles (Unison)

Sean Ramsden (TGWU)

Admitted / Scheduled Bodies Representative

(No Voting Rights)

(1)

David Holmes

For information about the meeting please contact:

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NOTES ABOUT THE MEETING

1. MOBILE COMMUNICATIONS DEVICES

Although mobile phones, pagers and other such devices are an essential part of many people's lives, their use during a meeting can be disruptive and a nuisance. Everyone attending is asked therefore to ensure that any device is switched to silent operation or switched off completely.

2. CONDUCT AT THE MEETING

Although members of the public are welcome to attend meetings of the Committee, they have no right to speak at them. Seating for the public is, however, limited and the Council cannot guarantee that everyone who wants to be present in the meeting room can be accommodated. When it is known in advance that there is likely to be particular public interest in an item the Council will endeavour to provide an overspill room in which, by use of television links, members of the public will be able to see and hear most of the proceedings.

The Chairman of the meeting has discretion, however, to invite members of the public to ask questions or to respond to points raised by Members. Those who wish to do that may find it helpful to advise the Committee Officer before the meeting so that the Chairman is aware that someone wishes to ask a question.

PLEASE REMEMBER THAT THE CHAIRMAN MAY REQUIRE ANYONE WHO ACTS IN A DISRUPTIVE MANNER TO LEAVE THE MEETING AND THAT THE MEETING MAY BE ADJOURNED IF NECESSARY WHILE THAT IS ARRANGED.

If you need to leave the meeting before its end, please remember that others present have the right to listen to the proceedings without disruption. Please leave quietly and do not engage others in conversation until you have left the meeting room.

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. DECLARATION OF INTERESTS

Members are invited to declare any interests in any of the items on the agenda at this point of the meeting. Members may still declare an interest in an item at any time prior to the consideration of the matter.

4. MINUTES OF THE MEETING

To approve as a correct record the minutes of the meeting held on 15 December 2009 and authorise the Chairman to sign them.

5. PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 31 DECEMBER 2009- report attached

6. BUSINESS PLAN/ANNUAL REPORT – report attached

7. REVIEW OF THE PENSION FUND ACTUARY – report attached

8. DISCRETIONARY POLICIES UPDATE - report attached

9. 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.

10. 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.

11. CONSIDERATION OF CHIEF EXECUTIVE'S REPORT CONTAINING EXEMPT INFORMATION

Cheryl Coppel
Chief Executive

**MINUTES OF A MEETING OF THE PENSIONS COMMITTEE
Havering Town Hall, Romford**

15 December (7.30pm – 9.48pm)

Present:

COUNCILLORS

Conservative Group Robby Misir (in the Chair), Robert Benham, Eric Munday and *Frederick Thompson

Residents' Group Clarence Barrett and Linda Van den Hende

John Giles was also in attendance

Apologies for absence were received from Councillor Melvin Wallace (substitute *Councillor Frederick Thompson)

The Chairman advised the Committee of action to be taken in the event of emergency evacuation of the Town Hall becoming necessary.

Councillors Clarence Barrett, Frederick Thompson and Linda Van den Hende declared a personal interest, which was not prejudicial, as all are members of the Local Government Pension Scheme, although not of the Havering Pension Fund.

20. MINUTES

The minutes of the Committee meeting held on 3 November 2009 were agreed as a correct record, and signed by the Chairman.

21. PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 30 SEPTEMBER 2009

Hymans Robertson attended the meeting to provide advice to the Committee. They advised that the summer months had been stirring times for the global equity markets. The gains recorded were amongst the largest seen during any calendar quarter for many years. Given this upsurge comment was offered on the relative performance of the Fund's Investment Managers.

Standard Life had their third consecutive quarter of outperformance. Relative returns were significant at 6.7%. 12 month returns were very positive having outperformed the FTSE Allshare by 7.8%.

Royal London had a second successful quarter by outperforming their composite benchmark by 1.9%.. Their performance was positive across all bond classes,

particularly in corporate bonds. Over three years the portfolio is lagging the benchmark slightly, but since inception is broadly in line with benchmark.

Alliance Bernstein had outperformed their benchmark by 0.9% over the quarter. Long term returns were still trailing the benchmark significantly. Representatives from Alliance Bernstein were in attendance to advise the Committee of their progress.

UBS's Triton fund had suffered a sixth quarter of negative performance, underperforming by 1.2%. The Investment Property Databank (IPD) Balanced Fund index had turned positive for the first time in over two years (2.5% over the quarter.) UBS representatives attended the meeting to discuss their performance.

a) UBS

UBS's performance was being driven by the need to sell assets to meet redemptions and the limited availability of product. UBS had been subject to significant staff changes with Cliff Hawkins leaving and being replaced by Anthony Shayle as Head of Global Real Estate – UK and by Robert Houston as Senior Adviser and Chairman of the Investment Committees Global Real Estate – UK.

The Committee were advised of the steps UBS were taking to meet their redemptions and to streamline their property portfolio by selling off those properties which were delivering low yields. UBS believed that this strategy would strengthen their position in the market.

During the quarter UBS had out performed the benchmark by 1.3% its first positive return after 8 quarters.

The Committee asked several searching questions of UBS and **noted** their response. They also **noted** there were no Corporate Governance issues.

b) Alliance Bernstein

Alliance Bernstein had outperformed the benchmark by 0.9% and outperformed the target by 0.4% (Net of fees) for the quarter. Representatives from Alliance Bernstein attended the meeting to present their report on progress in quarter 3. Unfortunately rather than concentrate on key issues the representatives delivered a technical presentation which failed to provide adequate information to the Committee.

Having heard the presentation from Alliance Bernstein and the comments and feedback from Hymans Robertson the Committee **noted** the report and advised officers that they would desire a more focussed presentation next time, and **noted** that there were no Corporate Governance issues.

c) Cash balances

As previously reported the Fund has £6.8m cash on deposit pending any further strategy decisions. This cash is held on deposit with Lloyds Bank until 12 January

Pensions Committee 15 December 2009

2010. Given the timescale for the appointment of a Passive Fund Manager and Diversified Asset Manager the Committee **agreed** to delegate to the Group Director Finance and Commerce the choice of where to deposit this money after 12 January provided it is in line with the Treasury Management investment strategy.

d) New Investment Managers

Hymans Robertson advised the Committee that they anticipated receiving at least three tenders for the position of Passive Manager. The date for the receipt of tenders was 21 December 2009 and they anticipated being in a position to work with officers early in the New Year to agree a short list for member consideration.

Similarly the closing date for the receipt of tenders for the position of Diversified Asset Manager was 21 December 2009. At this time it was not possible to anticipate how many companies would return tenders but potential 42 companies could express interest. Again Hymans Robertson expected to be in a position to meet officers to draw up a short list in January.

In the light of this information the Committee **agreed** to call a Special Meeting of the Pensions Committee on 23 February to interview the short listed Investment Managers.

22. REVIEW OF THE PENSION FUND CUSTODIAN

Officers had met with representatives of State Street, the Pension Funds Custodian to review their annual performance for the period April 2008 to March 2009. The services were reviewed to ensure that the Pension Fund was receiving best value for money and was benefiting from all the services the custodian has to offer.

Officers advised the Committee that they were satisfied with the safe keeping and custody functions provided by State Street. They were also pleased with the improvements made to the investment accounting and reporting functions and the fact that State Street were currently seeking to make further improvements to improve accuracy and timeliness of data provided.

The Committee **noted** the report.

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PENSIONS COMMITTEE

REPORT

16 March 2010

Subject Heading:

**PENSION FUND PERFORMANCE
MONITORING FOR THE QUARTER
ENDED 31 DECEMBER 2009**

CMT Lead:

Andrew Blake-Herbert, Group Director
Finance and Commerce

Report Author and contact details:

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Telephone: (01708) 432569
E-mail address:

Policy context:

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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 December 2009.

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

- | | |
|--|-------------------------------------|
| Clean, safe and green borough | <input type="checkbox"/> |
| Excellence in education and learning | <input type="checkbox"/> |
| Opportunities for all through economic, social and cultural activity | <input type="checkbox"/> |
| Value and enhance the life of every individual | <input checked="" type="checkbox"/> |
| High customer satisfaction and a stable council tax | <input type="checkbox"/> |

SUMMARY

This report provides the Committee with an overview of the performance of the Havering Pension Fund investments for the quarterly period to 31 December 2009. 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 December 2009 was **1.9%**. This represents an underperformance of **-1.4%** against the combined tactical benchmark and an outperformance of **5.6%** against the strategic benchmark.

The overall net return of the Fund's investments for the **year** to 31 December 2009 was **21.2%**. This represents an out performance of **3.5%** against the annual tactical combined benchmark and an outperformance of **23.5%** against the annual strategic benchmark.

Members should bear in mind that the markets have seen unprecedented volatility since the latter half of 2007 and further market crisis in the financials sector led to more market falls during 2008. The middle part of 2009 saw markets continuing to rally on the back of an improvement in worldwide economic data, erasing some of the losses from the early part of the year. This latest quarter saw markets make relatively modest gains. Interest rates remain at 0.5%.

It is now possible to measure the individual managers' annual return for the new tactical combined benchmark as 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) Notes the summary of the performance of the Pension Fund within this report.
- 3) Considers the quarterly reports provided by each investment manager.
- 4) Considers and notes any Corporate Governance issues arising from voting as detailed by each manager.

- 5) Considers any points arising from officer monitoring meetings (section 4 refers).
- 6) Notes the change in monitoring arrangements for this quarter (section 4.1 (a), 4.3 (a) and 4.4 (k).
- 7) Notes the analysis of the cash balances (paragraphs 2.2, 2.3 and 2.4 refer).
- 8) Considers any necessary action with regard to the funds cash position (paragraph 2.3 refers).

REPORT DETAIL

1. **Background**

- 1.1 A major restructure of the fund took place in the first quarter of 2005. A further 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.
- 1.2 As part of the SIP a strategic benchmark was adopted for the overall Fund of Gilts + 3.6% gross (3% net) per annum. In the revised SIP the strategic benchmark adopted for the overall Fund is Gilts plus 2.9% (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 outperformance 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. No revisions were made to individual fund manager benchmarks as part of the investment strategy review. However the asset allocation has been revised and these are shown in the following table against the manager’s benchmarks:

Manager and percentage of total Fund awarded	Mandate	Tactical Benchmark	Out performance Target (net of fees)
Standard Life 30%	UK Equities	FTSE All Share Index	2%
Alliance Bernstein 30%	Global Equities	MSCI All World Index	2.5%
Royal London Asset Management (RLAM) 30%	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 	0.75%

		<ul style="list-style-type: none"> • 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
Alternatives (possibly 5%)	Alternatives	Not yet appointed and kept under review until the market settles	

1.4 The bond mandate with Western Asset was terminated on the 1st August 2008 and cash was transferred in stages to Alliance Bernstein. The allocation to Royal London will remain at 30% until a decision has been made with regard to investing in an alternative asset class in which it will then be reduced to 25% to fund an investment in alternatives.

1.5 UBS manage the assets on a pooled basis. Standard Life, Royal London and Alliance Bernstein 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

1.6 Since the Quarter 3 (September 06) Report, 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).

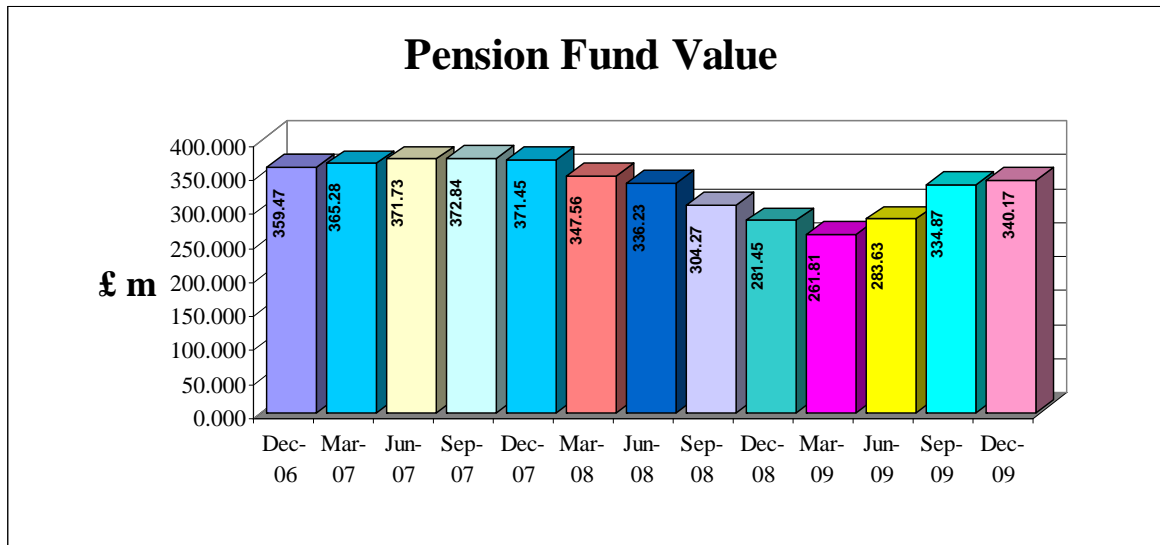
1.7 Managers are invited to present at the Pensions Committee Meeting every 6 months. On alternate dates, they meet with officers for a formal monitoring meeting. The exception to this procedure is the Property Manager, UBS, who will attend two meetings per year, one with Officers and one with Pensions Committee. However due to members concerns over UBS performance, from September 09 UBS monitoring arrangements will be brought in line with the other fund managers.

1.8 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 December 2009 was **£340.17m**. 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 £334.87m at the 30 September 2009; an increase of **£5.94m**. The increase in the fund value is attributable to fund performance, resulting in an increase of £6.80m and a decrease in internal cash of £0.86m. The internally managed cash level totals **£5.4m**, of which

an analysis follows in this report.



Source: WM Company (Performance Measurers)

2.2 An analysis of the internally managed cash balance of **£5.4m** follows:

CASH ANALYSIS	2007/08	2008/09 (Revised)	2009/10
	£000's	£000's	£000's
Balance B/F	-3706	-6673	-7999
Benefits Paid	22852	23878	20039
Management costs	1869	1742	1305
Net Transfer Values	-2520	156	2038
Employee/Employer Contributions	-24922	-26546	-20763
Cash from/to Managers	0	-315	-31
Internal Interest	-246	-241	-29
Movement in Year	-2967	-1326	2559
Balance C/F	-6673	-7999	-5440

2.3 In addition to the internally managed cash above, the fund has **£6.8m** cash on deposit with Lloyds Bank until 12 April 2010. This brings the overall cash position to **£12.2m**. **Members will need to give consideration as to whether to continue to place the £6.8m cash on deposit pending any further strategy decisions.**

2.4 Internally managed cash has been decreasing during 2009/10; the significant factor being the reduction in net transfer values (more members transferring out than in). Officers will keep this trend under review and will make a more detailed report should the trend continue. Officers are of the view that the current level of cash remains sufficient for the cash flow requirements of the fund over the medium term.

3. Performance Figures against Benchmarks

3.1 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 31.12.09	12 Months to 31.12.09	3 Years to 31.12.09	5 years to 31.12.09
Fund	1.9%	21.2%	-2.5%	3.9%
Benchmark return	3.4%	17.1%	0.5%	5.4%
*Difference in return	-1.4%	3.5%	-3.0%	-1.1%

Source: WM Company

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

3.2 The overall net performance of the Fund against the Strategic Benchmark (i.e. the strategy adopted of Gilts over 15 years + 3% per and then revised to 2.9%) is shown below:

	Quarter to 31.12.09	12 Months to 31.12.09	3 Years to 31.12.09	5 years to 31.12.09
Fund	1.9%	21.2%	-2.5%	3.9%
Benchmark return	-3.5%	-1.8%	6.5%	7.9%
*Difference in return	5.6%	23.5%	-8.5%	-3.7%

Source: WM Company

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

The fund has been under its new arrangements since February 2005; therefore historical performance greater than three years is no reflection of the new strategy. The Fund's revised strategy adopted in September 2008 has not been fully implemented and historical performance greater than one year is no reflection of the revised strategy.

3.3 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 DECEMBER 2009)

	Standard Life	Alliance Bernstein	Royal London	UBS
Return (performance)	2.0	4.0	0.4	1.6
Benchmark	5.5	3.6	-0.5	8.1
*Over/(Under) Performance vs. Benchmark	-3.3	0.4	0.9	-6.5
TARGET	6.0	4.2	-0.3	n/a
* Over/(Under) Performance vs. Target	-3.8	-0.2	0.7	n/a

Source: WM Company, Fund Managers and Hymans

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

ANNUAL PERFORMANCE (LAST 12 MONTHS)

	Standard Life	Alliance Bernstein	Royal London	UBS
ANNUAL				
Return (performance)	45.3	21.9	11.0	-10.4
Benchmark	30.1	19.9	7.5	-1.3
*Over/(Under) Performance vs. Benchmark	11.5	-1.7	3.5	-11.7
TARGET	32.1	22.4	8.3	n/a
* Over/(Under) Performance vs. Target	9.2	-0.4	2.5	n/a

Source: WM Company, Fund Managers and Hymans

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

4. Fund Manager Reports

4.1 UK Equities (Standard Life)

- a) Officers met with Standard Life on the 23 February 2010, in place of the Pensions Committee members for the review of the quarter 4. This was due to the scheduled pensions committee being shared with a special meeting and that members at that meeting could focus on assessing the shortlist for potentially two new fund managers.
- b) The value of the fund as at 31 December 09 increased by 2% since Sept 09.
- c) Standard Life under performed the benchmark in the quarter by -3.3% and under performed the target in the quarter by -3.8%. Since

inception they have underperformed the benchmark by -0.3% and underperformed the target by -2.2%.

- d) Dale introduced Kiki McDonald who will be replacing Helen Driver as David Cumming's substitute. Kiki joined Standard Life in 2005 and has been in the industry for about eight years, having previously worked at ABV Amro as an equities research analyst. Kiki is the sector analyst covering General Retail & Food manufacturing sectors.
- e) Standard Life reported that the UK equity market made a strong recovery during 2009 with modest gains in the final quarter. Markets were still volatile and markets remained choppy on concerns over Dubai default. Investors continued to react positively as the global economy moved out of recession.
- f) Standard Life believes that opportunities for active investors remain but there will be a modest recovery going forward. Global and UK economies are in a recovery phase and also believe that inflationary pressures will be subdued with strong earnings growth in 2010/11.
- g) Contributors to performance were in; the Mining and General Retailers sector. In Mining – commodity prices were strong with economic growth continuing to recover (overweight in Xstrata, Vedanta and Kazakhmys stocks). In the General Retail sector trading was stronger than forecast. (overweight in DSG International stocks)
- h) Negative performance came from the Banking and Travel & Leisure Sectors. In the banking sector there were concerns over UK bank capital requirements and Lloyd's rights issue (RBS, Barclays and Lloyds). In the Travel & Leisure sector there were concerns over profit taking and possible strike action (overweight British Airways and Punch Taverns stocks).
- i) The portfolio activity during Quarter 4 were as follows :
 - Purchased Easyjet (cheap growth stock on our winners list, capacity continuing to withdraw from this sector),
 - Purchased Trinity Mirror and Daily Mail & General Trust, Aegis (valuations low, should see earning up grades and margin improvements as advertising spend recovers)
 - Purchased Lloyds Banking Group (participated in the £13.5bn rights issue, company over the worst of bad debts)
 - Sold stocks in DSG International (taking profits after strong run).
 - Sold stocks in BAE Systems & QinetiQ (concerns over fiscal squeeze and pressure on defence spending),
 - Sold stocks in Michael Page International (taking profits after shares rallied on the back of improving employment data).

- j) Given the poor information supplied to investors by the management of RBS, Standard Life were asked about the increase in their positions in Lloyds and whether they were confident about the information being passed by the management to investors. Standard Life explained that they don't just rely on the information supplied by the management and that they stress test and cross reference information with other analysts. They increased their positioning on the basis that Lloyds are now out of the Government protection scheme and trading at discount prices. Generally Standard Life stated that they are not over exposed to banks.
- k) It was commented that Standard Life seemed to perform better in a rising market and not so well in a declining one. Standard Life did agree that they were biased towards a rising market but have said that are broadening their strategy going forward; refocusing on stock picking and reducing the tracking error.
- l) Standard Life were asked if in future presentations could they provide a more detailed breakdown of the attributes to performance, including if possible, stocks and sector performance.
- m) Standard Life was updated with the current position regarding the investment strategy implementation.
- n) There were no governance or whistle blowing issues to report.

4.2 Global Equities (Alliance Bernstein)

- a) In accordance with agreed procedures officers met with representatives from Alliance Bernstein on the 15 February 2010 at which a review of the quarter 4 performance was discussed.
- b) In accordance with agreed procedures officers met with representatives from Alliance Bernstein on the 15 February 2010 at which a review of the quarter 4 performance was discussed.
- c) Alliance Bernstein outperformed the benchmark by 0.4% but underperformed the target by (0.2%) (Net of fees). Since inception they are below benchmark by (2.6%) and below the target by (4.9%) (Net of fees).
- d) Equity markets made modest gains during the quarter.
- e) Alliance Bernstein proposed discussing a shorter version of their presentation following feedback from members that the presentations are too complicated. Officers agreed to go through the revamped version and some presentational suggestions were made. Main topics to be included are shown below.
 - Alliance Bernstein will remind members of their concepts of Growth and Value philosophies. (Growth Stock is stock that is

expected to generate above average revenue and earnings growth relative to the market. Value Stock is stock that is under priced by the market relative to assets, sales, dividend income or earnings).

- They will also include how the portfolio performed over the quarter and what drove this. They will also show where they see opportunities and how they expect to restore premium.
 - Alliance Bernstein was also reminded that they should show the net performance position reported using geometric calculations.
- f) The portfolio benchmark is split 50/50 between growth and value stocks. As at Quarter 4 this split was 50.4% Value and 59.6% Growth with an overlap of 13.4%. The best performance came from the growth sleeve.
- g) Contribution to performance came from stock selection and currency selection. Top contributors came from holding stock in Nissan Motors, Amazon.com, Merck & Co, CNOOC Ltd and Mitsubishi. Currency contributors came from being underweight yen and overweight pound.
- h) Alliance Bernstein was asked if they hedged the currency. Alliance Bernstein explained that they actively assess the risk before they decide and don't always take the decision to hedge; they also explained that in line with constraints of the fund they only hedge to sterling.
- i) Detractors from performance came from sector selection – being overweight in financials and information technology.
- j) Given that poor performance in 2008 was attributable to mainly being overweight in financials, Alliance Bernstein was questioned on whether we should be concerned that four out of five biggest detractors were in financials. Alliance Bernstein explained that the markets are still volatile and reacted to Obama statement on regulation changes. They felt that they were not overexposed as they were only .7% over the index.
- k) Alliance Bernstein feels that while markets continue to rally, conditions remain far from normal. They believe that widespread uncertainty continues to create opportunity for active managers to add value.
- l) No governance or whistle blowing issues were reported.

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

- a) Officers met with Royal London on the 23 February 2010, in place of the Pension Committee members for the review of quarter 4. This was due to the scheduled pensions committee being shared with a special pensions meeting and that members at that meeting could focus on assessing the shortlist for potentially two new fund managers.
- b) The value of the fund as at 31 December 09 increased by .4% since Sept 09.
- c) Royal London outperformed the benchmark for the quarter by .9% and .7% against the target.
- d) Performance drivers come from the asset allocation, duration and yield curve positioning and stock selection.
- e) Asset allocation of the fund during the quarter was 52.5% Sterling Credit Bonds, 29.0% UK Index Linked, 17.7% UK Conventional Government Bonds, .6% overseas Fixed Interest Bonds and .2% cash.
- f) In respect of asset allocation Royal London's activity during the quarter was as follows:
 - Increased credit bond position
 - In the early part of the quarter maintained an overweight position in index linked bonds but later moved to an underweight position.
 - Reduced exposure to index linked bonds relative to gilts
 - Actively pursued strategies in both European and US bonds.
- g) Portfolio benefited from the overweight position in credit. Overall asset allocation was beneficial. They were too early in moving to an underweight index linked position as index linked bonds outperformed conventional gilts by over 3%. Holding of overseas bonds added value over the quarter.
- h) Royal London was just slightly under benchmark with regard to duration positioning i.e. the sensitivity of a bond's price to shifts in interest rates, which benefited the portfolio.
- i) In regard to the Yield curve positions i.e. the relation between the interest rate and the time of maturity of a bond. There was a small positive impact on the fund by maintaining an overweight position on 5 to 10 year bonds and an underweight position in long dated bonds.
- j) In respect of stock selection the activity during the quarter was as follows:
 - Credit Bonds focussed upon new issuances e.g. EDF Energy Networks, BAA and Genesis Housing. On the secondary market activity was limited but added exposure to Equity

- Release and Octagon Healthcare.
 - Reduced exposure to RMPA.
 - Switched into longer dated bonds issued by Imperial Tobacco
 - Increased exposure to 15 to 25 year government bonds.
- k) The portfolio benefited from stock selection within credit and government bonds and the bias towards covenanted/asset rich bonds were beneficial.
- l) Royal London are confident that the target of +.75% is achievable in the current market.
- m) Some presentational issues were discussed with Royal London and they were asked if in future they could show the relative performance against benchmark and the target. They were also asked if they could show how the asset allocation and other positions within the portfolio affected performance.
- n) Royal London was also asked if they would expect to change the positions in the portfolio in anticipation of the outcomes of 2010 General Election. They said that that would not making changes as the portfolio is positioned around the markets, which has already priced in anticipated outcomes.
- o) Members have agreed a change to our portfolio that allows bonds to be held if they are downgraded after purchase to below investment grade BBB- . This means that Royal London would avoid having to be forced to sell those downgraded bonds. Royal London has been granted some flexibility over the disposal of these bonds during a period where it is expected a higher than usual numbers of bonds are being downgraded. It will not be permitted to allow purchase of bonds below BBB- only to have some flexibility when to sell if downgraded.
- p) Royal London explained that for those assets that were downgraded earlier in the year and were not forced to sell benefited the portfolio. Royal London was asked if they could demonstrate this for future reference.
- q) There were no governance or whistle blowing issues to report.

4.4 Property (UBS)

- a) In accordance with agreed procedures officers met with representatives from Royal London on the 15 February 2010 at which a review of the quarter 4 performance was discussed.
- b) The value of the fund saw a slight decrease in value by .04% since the last meeting with members in September 09.
- c) UBS underperformed the benchmark in the quarter by -6.5% and

underperformed the benchmark in the year by -11.7%.

- d) The Triton fund currently has 36 properties under offer at a value of £150m. Underperformance was mainly attributable to the number of write-offs on reduced valuations for these properties. Most of these write-offs have been realised in quarter 4 but there is a residual amount that will feed into the Q1 2010 (Jan – Mar) figures.
- e) UBS believe that these sales represent low yielding secondary assets and are positive that what is left in the portfolio remain prime assets and this will have long term benefits for the fund. The sale of these assets will also bring the void rate down from 15.8% to 11.5% which is slightly below benchmark.
- f) UBS were questioned on why the void rate had been so high in the first place. UBS explained that some strategic decisions in the past meant that the fund had cash and bought in a number of empty properties but was then caught out by the crash in the markets; hence left with properties that they couldn't let. UBS now believe that asset manager initiatives before the sales had already brought the void rate down from 19.3% to 15.8%.
- g) The number of properties in the Triton fund will be reduced from 82 to 46. UBS explained that they have appointed another asset manager who starts in February which brings the number of asset managers to five.
- h) A number of redemption requests have been withdrawn bringing the redemption level down to £100m as at February. Existing redemption commitments will be completed by March/April. UBS explained that this is a positive sign as investors had previously reacted to the number of senior departures and posted redemption requests as a safeguard but have now withdrawn them.
- i) UBS explained that in the past 25% of the fund has been valued by two different valuers rotated on a quarterly basis, unlike other property funds that always use the same valuers. This rotation will stop from Q1 10 and only one valuation will be used.
- j) UBS explained that in the short term their strategy priorities, in addition to those actions taken above, are to increase income yield and adjust their sector weightings. Once the above sales have gone through there will be approx £50m available for reinvestment. They will target the industrial and retail sectors and they also aim to reduce holdings in the rest of UK offices to zero.
- k) It was discussed with UBS that the monitoring meetings with them will increase in the short term to bring this in line with the other fund managers. UBS will now have two officer and two committee meetings a year instead of one of each.

- l) UBS confirmed that there were no governance or whistle blowing issues to report in respect of the Triton fund.

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 that were due to attend this meeting were Royal London and Standard Life. However, Officers met with Royal London and Standard Life on the 23 February 2010, in place of the Pension Committee members for the review of quarter 4. This was due to the scheduled pensions committee being shared with a special pensions meeting and that members at that meeting could focus on assessing the shortlist for potentially two new fund managers.
- 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:

None arising directly

Equalities implications and risks:

None arising directly

BACKGROUND PAPERS

Standard Life Quarterly report to 31 December 2009
Alliance Bernstein Quarterly report to 31 December 2009
Royal London Quarterly report to 31 December 2009
Western Asset Quarterly report to 31 December 2009
UBS Quarterly report to 31 December 2009
The WM Company Performance Review Report to 31 December 2009
Hyman's Monitoring Report to 31 December 2009



PENSIONS COMMITTEE

REPORT

16 March 2010

Subject Heading:

**BUSINESS PLAN/ANNUAL REPORT
ON THE WORK OF THE PENSIONS
COMMITTEE**

Report Author and contact details:

Contact: Debbie Ford
Designation: Pension fund Accountant
Telephone: (01708) 432569
E-mail Address:

Policy context:

debbie.ford@havering.gov.uk
A Business Plan incorporating training
demonstrates compliance against Myners
principle for effective decision making

Financial summary:

Training costs are met from the Pension
fund

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

Clean, safe and green borough	<input type="checkbox"/>
Excellence in education and learning	<input type="checkbox"/>
Opportunities for all through economic, social and cultural activity	<input type="checkbox"/>
Value and enhance the life of every individual	<input checked="" type="checkbox"/>
High customer satisfaction and a stable council tax	<input type="checkbox"/>

SUMMARY

This report sets out the work undertaken by the Committee during 2009/10 and the plan of work for the following year (2010/11) along with an assessment of the training requirements for Members of the Committee. This will form the basis of the Pension Fund Business Plan.

This report explains why a Business Plan is needed and what it should contain.

RECOMMENDATIONS

1. Members consider and agree the Business Plan/ Report of the work of the Committee (See Appendix A).
2. Members agree the Business Plan/Report of the work of the Committee be reported to full Council.
3. Members consider and agree the training proposals, identifying and incorporating any other needs (Paragraph 6 refers).
4. Members add any areas/topics that they want covered.
5. Members note the intention to provide the additional staffing resource required to support the on going administration of the service.

REPORT DETAIL

1. Each administrating authority is required by regulation 12 (3) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 to include in its Statement of Investment Principles the extent to which the authority's policy complies with guidance given by the secretary of state. Compliance is measured against the six principles set out in the Myners Principles.
2. In a letter dated 14 December 2009 guidance referred to applies to the guidance issued by Chartered Institute of Public Finance and Accountancy (CIPFA) on 11 December 2009. This is a guide to the application of the Myners Principle and includes suggested best practices that could be adopted to demonstrate compliance.
3. In Myners Principle 1: Effective Decision Making - suggested best practice is the creation of a Business Plan and a Training Plan. The Pensions Committee has, in recent years, prepared a report that has covered both Committee activities, including training and the general performance of the Fund. The latter is now a statutory requirement and will be prepared as part of the annual accounts process and included in the Annual Report. It is; however appropriate to continue to prepare a separate report on the activity of the Committee on an annual basis and this will be adopted as the Business Plan. The Business Plan will incorporate the Training Plan. This would also

demonstrate compliance against Myners Principles 1: Effective Decision making.

4. CIPFA guidance suggests that the Business Plan is submitted to the committee for consideration and should contain:
 - Major milestones & issues to be considered by the committee
 - Financial estimates – investment and administration of the fund
 - Appropriate provision for training
 - Key targets & methods of measurement
 - Review level of internal & external resources the committee needs to carry out its functions
 - Recommended actions to put right any deficiencies

5. It is important that all the Members of the Committee are adequately trained and briefed to make effective decisions and that members are aware of their statutory and fiduciary responsibilities and achieve the terms of reference of this Committee which are:
 - To consider and agree the investment strategy and statement of investment principles for the pension fund
 - Where appropriate and above staff delegation levels to authorise the invitation of tenders and the award of contracts for actuaries, advisers and fund managers or other related investment matters
 - To appoint and review the performance of advisers and investment managers for Council and 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.

6. Training and development will be held having regard to the work plan as shown in Annex C of Appendix A. It is proposed that Members will be requested to notify any other training needs to the Pension Accountant pending review of the adoption of the CIPFA Knowledge and Skills Framework.

7. The report also picks up on the current workloads of the day to day administration of the pension fund and notes the intention to increase staffing levels. The costs of providing the administrative support for pensions are charged directly to the fund and the regulations allow us to charge all reasonable expenses for pensions administration.

8. In line with the above, a report is attached as Appendix A.

IMPLICATIONS AND RISKS

Financial implications and risks:

1. The cost of two additional members of staff to support the administration of the fund, can be charged directly to the fund and will cost in the region of £50,000.
2. Training costs are met from the Pension Fund directly or via the Advisor Fee.
3. The Advisor Fee includes provision for two sessions.
4. There is a considerable risk of poor decision making if Members of the Committee are not adequately trained.

Legal implications and risks:

The specialist training of those Members who oversee the administration of the Council Pension Scheme is highly desirable in order to help show the proper administration of the scheme. The Council's Constitution recommends that the Membership of the Pension Committee remains static for the life of the Council for the very reason that Members need to be fully trained in investment matters. The life of the Council is considered to be the four year term.

Human Resources implications and risks:

None arising directly.

Equalities implications and risks:

None arising directly.

BACKGROUND PAPERS

CIPFA Guide investment decision making and disclosure (Dec 09)



Havering

LONDON BOROUGH

HAVERING PENSION FUND

BUSINESS PLAN/REPORT ON THE WORK
Of the
PENSIONS COMMITTEE

MARCH 2010

Financial Services
Town hall
Main Road
Romford, Essex, RM1 3BB

Tel: 01708 432217
Fax: 01708 432162

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 2009 to 31st March 2010 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 2009/10 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 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 + 2.9% (net of fees). The Fund currently has four different fund managers (who have specific mandates) and performance is monitored against an agreed benchmark. This is likely to increase to six managers once the current investment strategy review is completed. Current asset allocation and performance targets with proposed changes (dotted line), are shown below:

Manager and percentage of total Fund awarded	Mandate	Tactical Benchmark (what managers are measured against)	Out performance Target (net of fees)
Standard Life 30%	UK Equities	FTSE All Share Index	2%
Alliance Bernstein 30%	Global Equities	MSCI All World Index	2.5%
Royal London Asset Management (RLAM) 30%	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 10%	Property	IPD (previously called HSBC/AREF) All Balanced Funds Median Index	To outperform the benchmark
Alternatives (possibly 5%)	Alternatives	Not yet appointed – possible appointment Feb/ Mar 2010	
Passive Manager (15%)	Passive Equities	Not yet appointed – possible appointment Feb/ Mar 2010	

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

FUND MANAGEMENT STRUCTURE

Day to day management of the fund is delegated to the Director of Finance and Commerce. The Committee also 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 2009/10 is as follows:

Cllr Melvin Wallace (Chairman) – Conservative Group
 Cllr Roger Ramsey (Vice Chairman) – Conservative Group
 Cllr Benham - Conservative Group
 Cllr Robby Misir - Conservative Group
 Cllr Clarence Barrett – Residents Group
 Cllr Linda van den Hende - Residents Group
 Cllr Jeffrey Tucker – Independent Local Residents Group

Non voting Union Members:

Brian Long (Unison) replaced by John Giles
 Sean Ramsden (TGWU)

Non voting Admitted/Scheduled Body Representative:

David Holmes – Havering College of Further and Higher Education

There were some changes made to the members of the committee in May 2009 as follows:

Cllr Robby Misir (Chairman) - Conservative Group
 Cllr Eric Munday (Vice Chairman) - Conservative Group
 Cllr Benham - Conservative Group
 Cllr Melvin Wallace - Conservative Group
 Cllr Clarence Barrett - Residents Group
 Cllr Linda van den Hende - Residents Group
 Cllr Jeffrey Tucker - Independent Local Residents Group

Fund Administrator	London Borough of Havering
Actuary	Hewitt Bacon & Woodrow
Auditors	PricewaterhouseCoopers LLP (PWC)
Performance Measurement	WM Company
Custodians	State Street Global Assets
Investment Managers	Standard Life Investments (UK Equities) Royal London Asset Management (Investment Bonds) Alliance Bernstein Institutional Investors (Global Equities) UBS (Property)
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 for the pension fund
- Where appropriate and above staff delegation levels to authorise the invitation of tenders and the award of contracts for actuaries, advisers and fund managers or other related investment matters
- To appoint and review the performance of advisers and investment managers for Council and 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 2009/10

The Committee met a number of times during 2009/10 and Annex A sets out the coverage but the key issues that arose in the period are shown below:

Key issues arising in the period

- **Market Conditions / Investment Strategy**

Investment Strategy Implementation was discussed regarding its progression and implementation in light of extreme market conditions. Members agreed to start the search for a UK /Global Equities Passive Manager and a Diversified Alternatives Manager

- **Annual Report**

The Annual Report was first statutorily produced in line with the LGPS (Administration) regulations.

- **Communication Strategy and Governance Policy**

In line with the 1997 Local Government Pension Scheme (LGPS) regulations the London Borough of Havering as an administering authority has undertaken an annual review of the Pension Fund's Communication Strategy and Governance Policy.

- **Whistleblowing Requirements of the Pensions Act**

An annual review was undertaken and no issues were reported.

- **Review of Statement of Investment Principles (SIP) and Funding Strategy Statement (FSS)**

These were reviewed and the SIP was amended to reflect a temporary deviation from strategy in light of market conditions. No changes were made to the FSS.

- **Annual Report for Members of the Fund 2008/09 (Pension Fund Leaflet)**

This was reviewed and approved for distribution with the annual benefit statements.

- **Reviewed Fund Manager quarterly performance**
- **Agreed extension of the contract for Pension Advisory Services until 31 March 2011**
- **Considered performance of Pensions Administration Service**
- **Reviewed performance of Custodians**

PENSION COMMITTEE MEETINGS 2010/11 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 committee in the coming year and beyond:

- Impact of changes in the LGPS (Management and Investment of Funds) Regulations 2009:
 - Separate Bank accounts for the Pension Fund by April 2011
 - Possible non pooling of pension fund cash with treasury management from April 2010
 - Revision of SIP before 1 July 2010
- Possible new actuary - introduction
- Proposals on Cost Sharing between employee /employer
- 2010 Valuation results
- Possible Investment Strategy Review following 2010 valuation
- Adoption of the New Myners Principles

- Potential future outcomes of LGPS reforms, including participation to CLG consultations
- Potential knock on effect of the recession

INTERNAL & EXTERNAL RESOURCES

The Pensions Committee is supported by the administering authorities' finance and administration services and the associated costs are therefore reimbursed to the administering 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 7.8 full time equivalent posts (10 posts) including a part time temporary member of staff.

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

The report also picks up on the current workloads of the day to day administration of the pension fund and notes the intention to increase staffing levels. The costs of providing the administrative support for pensions are charged directly to fund and the regulations allow us to charge all reasonable expenses for pensions administration.

Currently based on the annual statement of accounts for 2008/09 Havering ranks as the sixth best performing pension fund when comparing total cost of administration expenditure, the % per member and the % compared with the fund total. The administrative team has not changed in overall number since 2002, although 11 hours were gained in 2006.

Members of the committee will be aware of some of the performance levels not being achieved around the transfers in and out of the scheme and issuing of annual benefit statements.

There are also a number of other factors that make Havering's pension fund harder to administer:

- Havering employs the largest number of part time staff in London
- The number of part time employees with multiple employments
- Teaching assistants who's contracts are ended in July only to be restarted in September
- National changes to scheme requirements around refunds of contributions, production of pre retirement estimates, including for staff who were working beyond retirement age
- An increase in the number of admitted bodies
- The introduction of the new pension scheme and other DCLG requirements

There is also concern around the work requirement to clear data to enable us to have clean data to go forward into the valuation. It is important that the data is clean to prevent a more cautious valuation and therefore potentially a slightly higher employers contribution rate. This also fits with the "spotlight" document sent out by our actuaries last year which stresses the importance of good record keeping.

The team have stream lined and standardised many of their working practices, and have automated these where ever possible, but the current team are now working additional hours to try and keep pace with the existing work levels. The pensions team is also made up an aging work force, with one member of the team being 68 later this year and another 65 and we need to consider succession planning now so as not to create a greater problem further down the line

The committee are therefore requested to note the intention to create two additional posts with the appropriate agreement of the Cabinet Member in accordance with paragraph 1(ii) and (iii) to Part 3.3.2 of the Constitution.

FINANCIAL ESTIMATES

Administrative Expenses

	2008/09 Actual £000's	2009/10 Estimate £000's	2010/11 Estimate £000's	2011/12 Estimate £000's	2012/13 Estimate £000's
Administration & Processing	476	489	503	503	503
Actuarial Fees	10	12	52	10	10
Audit Fees	38	38	39	39	39
Other Fees	7	11	9	9	9
Other Costs	11	7	9	9	9
TOTAL	542	557	612	570	570

Investment Management expenses

	2008/09 Actual £000's	2009/10 Estimate £000's	2010/11 Estimate £000's	2011/12 Estimate £000's	2012/13 Estimate £000's
Administration, Management & custody	1,089	1,211	1,064	1,064	1,064
Performance Measurement services	11	11	11	11	11
Other Advisory Fees	85	80	40	40	40
TOTAL	1,185	1,302	1,115	1,115	1,115

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.
- Actuary fees will increase in 2010/11 for the work carried out on 2010 valuation.
- Based on 2009/10 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.

A self assessment training questionnaire is distributed to members annually to determine training required for the year.

Training and development took place during 2009/10 to ensure that Members of the Committee were fully briefed in the decisions they were taking.

Training logs are maintained and attendance and coverage can be found in [Annex B](#) but is outlined briefly below:

- Three day Trustee Training course for Councillor Munday
- Alternative Asset product – Standard Life
- New member training – pension overview for Councillor Tucker

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.

The members are currently in the last term of office so the majority of development has already been undertaken; training therefore during 2009/10 had been tailored to cover specific decisions required.

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.

TRAINING PLAN FOR 2010/11 and ONWARDS

Associated training will be given when required which will be linked to the Pension Fund meeting coverage for 2010/11 as shown in Annex C.

It is proposed that a knowledge and skills questionnaire would be circulated to members of the committee following the local elections in May 2010 once the membership of the committee is known. A training plan will consequently be drawn up and it is proposed that this will incorporate the CIPFA Knowledge and Skills Framework.

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COMMITTEE MEETINGS HELD DURING 2009/10

MONTH	TOPIC	Attended by
MAY 2009 (Special)	<ul style="list-style-type: none"> Investment Strategy Update including SIP amendment in light of market conditions and holding of cash balances 	Cllr Melvin Wallace (chair) Cllr Robby Misir Cllr Robert Benham Cllr Clarence Barrett Cllr Roger Ramsey
JUNE 2009	<ul style="list-style-type: none"> Pension Fund Performance Monitoring for the quarter Ending 31 March 2009 United Nations Principles of Responsible Investment (UNPRI) oral report 	Cllr Melvin Wallace (chair) Cllr T Eden (sub for Cllr Misir) Cllr L Thorpe (sub for Cllr Munday) Cllr Morgan (sub for Cllr Barrett) Cllr Jeffrey Tucker
AUGUST 2009 (Special)	<ul style="list-style-type: none"> Pension Fund Investment Strategy – Follow up. Agreed to start the search for a Global Equities Passive Manager and a Diversified Alternatives Manager Considered A DCLG Consultation paper on LGPS delivering Affordability, Viability and Fairness 	Cllr Robby Misir (chair) Cllr Eric Munday Cllr Robert Benham Cllr Melvin Wallace Cllr Clarence Barrett Cllr Morgan (sub for Cllr Van den Hende) Cllr Jeffrey Tucker
SEPTEMBER 2009 (Special)	<ul style="list-style-type: none"> Joint meeting with Audit Committee – approved the pension fund accounts within the statement of accounts 	Cllr Robby Misir Cllr Eric Munday Cllr Robert Benham Cllr Melvin Wallace Cllr Clarence Barrett Cllr Van den Hende
SEPTEMBER 2009	<ul style="list-style-type: none"> Pension Fund Performance Monitoring for the Quarter Ending 30 June 2009. 	Cllr Robby Misir (chair) Cllr Eric Munday Cllr Robert Benham Cllr Clarence Barrett Brian Long (UNISON)
NOVEMBER 2009	<ul style="list-style-type: none"> Agreed Pension Fund Annual Report – Year ended 31 March 2009 Agreed Report to Pensioners and Contributors of the Pension fund 2008-2009 Reviewed Pension Fund's Communication Strategy and Governance Compliance Statement Agreed extension of the Contract for Pension Advisory Services Whistleblowing Report 	Cllr Eric Munday (chair) Cllr T Eden (sub for Cllr Misir) Cllr Robert Benham Cllr F Thompson(sub for Cllr Wallace) Cllr Clarence Barrett Cllr Linda Van den Hende

MONTH	TOPIC	Attended by
	<ul style="list-style-type: none"> • Annual Review of the Statement of Investment Principles and the Funding Strategy Statement • Annual Review of the Pensions Administration Service 	John Giles (UNISON)
DECEMBER 2009	<ul style="list-style-type: none"> • Overall Monitoring Report on Pension Fund to End of September 2009 • Annual Review of the Pension Fund Custodian 	Cllr Robby Misir (chair) Cllr Eric Munday Cllr Robert Benham Cllr F Thompson(sub for Cllr Wallace) Cllr Clarence Barrett Cllr Linda Van den Hende John Giles (UNISON)
FEBRUARY 2009 (Special) To be confirmed	<ul style="list-style-type: none"> • To interview short listed Global Equities Passive Managers and Diversified Alternatives Managers • for the candidates of the Investment Strategy Review 	
MARCH 2010	<ul style="list-style-type: none"> • Overall Monitoring Report on Pension Fund to end of December 2009 • Annual report on the work of the pensions committee/business plan 	

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

ANNEX B

PENSIONS COMMITTEE MEMBER TRAINING AND DEVELOPMENT 2009/10

DATE	TOPIC COVERED	LOCATION	COST	ATTENDED BY
3 March 2009	Pensions overview - Informal one to one training by Debbie Ford (Duration 1 hour)	Town Hall	Officer Time	Cllr Tucker
23 April 2009	Local Authority Investment Seminar provided by Standard Life (1/2 day)	The Dorchester Hotel	Free	Cllr Wallace Cllr Ramsey
30 July 2009	All members sent a copy of 'A Guide to the Local Government Pension Scheme' as published by CIPFA	Via email	Officer Time – distribution part of the CIPFA subscription service	Cllr Wallace Cllr Misir Cllr Barrett Cllr Munday Cllr VandenHende David Holmes John Giles - UNISON
30 December 2009	Alternative Asset Training by Standard Life. Delivered prior to Committee meeting.	Before Committee meeting at the Town Hall	Free	Cllr Munday Cllr Misir Cllr Barrett
27 October, 30 November & 16 December 09 (This is a three day course)	Local Government Employers delivering Trustee Training: <ul style="list-style-type: none"> • Day 1 <ul style="list-style-type: none"> ○ LGPS framework (past and present) ○ Investment framework ○ Traditional Asset Classes 	London	£199.00 pp	Cllr Munday
30 November 09	<ul style="list-style-type: none"> • Day 2 <ul style="list-style-type: none"> ○ Valuations ○ Funding Strategy Statements ○ Corporate Governance ○ Communication Strategies/Policies ○ Established Alternative Investments 	London	£199.00 pp	Cllr Munday
16 December 09	<ul style="list-style-type: none"> • Day 3 <ul style="list-style-type: none"> ○ Duties and Responsibilities of committee members ○ The future for LGPS ○ Managers and Manager Selection ○ Bringing it all together 	London	£199.00 pp	Cllr Munday

DATE	TOPIC COVERED	LOCATION	COST	ATTENDED BY
4 November 09	WM Roadshow (1/2 day) – The Fund's Performance measures produced overall fund performance of the WM members and asset distribution	Churchill Place, Canary Wharf	Free	Cllr Munday
27 January 2010	CIPFA – Governance summit. Launch of Knowledge & Skills Framework Not offered to all members due to limited places - invitation to chair or vice chair only. Further training to be assessed after framework has been considered.		Part of CIPFA subscription service	Cllr Munday

PENSION FUND INVESTMENT MANAGERS CYCLICAL MEETINGS AND COVERAGE 2010/11

	16 MARCH 2010	JUNE/JULY 2010	SEPTEMBER 2010	NOVEMBER 2010	DECEMBER 2010	MARCH 2011
Formal Committees with Members	<ul style="list-style-type: none"> ▪ Overall Monitoring Report on Pension Fund to end of December: <ul style="list-style-type: none"> a) UK Equities Manager b) UK Bonds Manager ▪ Annual Training/ Business Plan and Work Plan Review inc work of Committee ▪ Impact of Revised Inv Regs: cash pooling 	<ul style="list-style-type: none"> ▪ Overall Monitoring Report on Pension Fund to March inc. <ul style="list-style-type: none"> a) Global Equities Manager b) Property ▪ Actuary Introduction (if new) ▪ Revised Myners/SIP changes 	<ul style="list-style-type: none"> ▪ Overall Monitoring Report on Pension Fund to end of June: <ul style="list-style-type: none"> a) UK Equities Manager b) UK Bonds Manager ▪ Pension Fund Annual Report (if statutory deadline is brought forward) ▪ Annual report on activity of Pensions Administration 	<ul style="list-style-type: none"> ▪ Annual review of Custodian ▪ Pension Fund leaflet ▪ Annual review of Adviser ▪ Review of Communications/ Governance Policies ▪ Whistleblowing Annual Assessment ▪ Administration Strategy (regs change) if necessary ▪ Stakeholder/ Regs review on pensions as required ▪ General report on Panel Activity; IDR policy; discretions – 100 weeks only – 100 weeks done verbally ??? ▪ Annual review of SIP ▪ Annual review of FSS 	<ul style="list-style-type: none"> ▪ Overall Monitoring Report on Pension Fund to end of September inc. <ul style="list-style-type: none"> a) Global Equities Manager b) Property ▪ Results of 2010 Valuation 	<ul style="list-style-type: none"> ▪ Overall Monitoring Report on Pension Fund to end of December: <ul style="list-style-type: none"> a) UK Equities Manager b) UK Bonds Manager ▪ Annual Training /Business Plan and Work Plan Review inc work of Committee
Officer Meeting	Meeting : 15 Feb 10 (pm) <ul style="list-style-type: none"> ▪ Global Equities ▪ Property Manager 	Meeting: May 10 (TBC) <ul style="list-style-type: none"> ▪ UK equities ▪ UK Bonds Meeting : TBC <ul style="list-style-type: none"> ▪ Advisor Review ▪ Custodian Review 	Meeting: Aug 10 (TBC) <ul style="list-style-type: none"> ▪ Global Equities Manager ▪ Property ▪ WM presentation 	No meeting	Meeting: Nov 10 (TBC) <ul style="list-style-type: none"> ▪ UK Equities ▪ UK Bonds Manager 	Meeting: Feb 11 (TBC) <ul style="list-style-type: none"> ▪ Global Equities ▪ Property
Training	Associated Training	Associated Training Knowledge & Skills audit	Associated Training	Associated Training	Associated Training	Associated Training

Note:

FSS and SIP review dates may be subject to change pending outcomes of the 2010 Valuation results

Adoption of Knowledge and Skills Framework?

New members – Knowledge & skills audit - Training Plan?

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PENSIONS COMMITTEE

7

16 March 2010

Subject Heading:

Review of the Pension Fund Actuary

CMT Lead:

Andrew Blake-Herbert, Director Finance and Commerce

Report Author and contact details:

Jeff Potter, Head of Exchequer Services

Policy context:

It is in line with Government Best practice to report on the performance of major contractors.

Financial summary:

This report is for noting only and therefore there is no financial impact of this report.

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

Clean, safe and green borough	<input type="checkbox"/>
Excellence in education and learning	<input type="checkbox"/>
Opportunities for all through economic, social and cultural activity	<input type="checkbox"/>
Value and enhance the life of every individual	<input type="checkbox"/>
High customer satisfaction and a stable council tax	<input checked="" type="checkbox"/>

SUMMARY

This report reviews the performance of the Actuary in the year ending September 2009.

RECOMMENDATIONS

It is recommended that the Committee: -

Notes the views of officers on the performance of the Actuary and makes any comment on the report which it considers appropriate.

REPORT DETAIL

1 BACKGROUND

- 1.1 At its meeting of 3rd February 2004, the Investment Committee (now Pensions Committee) appointed Hewitt Bacon and Woodrow (now known as Hewitt Associates) to provide actuarial services to Havering in respect of the Pension Fund following a competitive tender process. Hewitt's were appointed for the period from 1st April 2004 to 31st March 2010.
- 1.2 The Provision of Actuarial Services to the Council is currently subject to a retendering process and the outcome of this process will be reported to a further meeting of this committee.

2 REVIEW OF THE PERFORMANCE OF THE ACTUARY

- 2.1 The production of the triennial valuation is the key deliverable from the Actuary along with regular funding updates and annual calculations required for the Council's statement of accounts under the Local Authority Statement of Recommended Practices. The Actuary is also required to provide employer contribution rates & bond figures for Admitted Bodies , certificates of broad comparability and advice regarding changes in legislation within the Pension Fund arena.

The following criteria used at the evaluation are relevant to continue to use in evaluating performance:

- Expertise and skills
 - Specific LGPS experience
 - Service delivery
 - Quality of management and information
 - Approach to partnership working
- 2.2 Regular review by the client is best practice and expected under the Procurement Framework. Since their last review in November 2008, the Actuary has undertaken a number of functions as follows:
- a) Provision of employer contribution rates and bond figures for Admitted Bodies.
 - b) Determining broad comparability for external suppliers of services.
 - c) Liaison with the Council's software supplier concerning legislative updates to the system.
 - d) Produced annual accounting disclosures for inclusion in the Council's annual statement of accounts.
 - e) Provided funding updates to the Council.
 - f) Provision of data for government departments
 - g) Provided a number of newsletters, guidance and updates on issues concerning Local Government Pension Schemes.

2.3 A review of performance for the year ending September 2009 on the specific points above is set out below:

CRITERIA	ASSESSMENT
Expertise & Skills	<p>Hewitt has provided a very diverse range of advice and assistance to the Council over this period.</p> <p>The actuaries have worked with the Council on a number of outsourced or potentially outsourced contracts.</p> <p>They have been actively involved in discussions with the Government and software suppliers concerning changes and proposed changes to the legislation</p> <p>During the recession they have also produced revised funding statements and provided advice to the Council on actions we should take to mitigate the impact on the Pension Fund.</p>
Specific LGPS experience	Extensive expertise in the Local Government sector.
Service Delivery	Response times are excellent as is the quality of the work provided.
Quality of management and information	Excellent
Approach to partnership working	Work closely with Havering supporting and advising

2.4 Conclusion

Officers are very satisfied with the service that Hewitt are providing, they have confidence in the advice being given and have developed a good working relationship with Hewitt.

IMPLICATIONS AND RISKS

Financial implications and risks:

Fees are charged for the time spent on services, taking into consideration the complexity of the service provided, and the level of staff skill and expertise required. The cost of the actuarial services for the year to March 2009 was £27k. £13k was recharged to the other employers within the fund and, hence, this is not all borne by the Havering Pension Fund. Havering's costs are met from the Pension Fund.

In addition, costs from April 2009 to September 2009 are £16K in total with £6k not payable by Havering.

Legal implications and risks:

There are no Legal implications or risks directly arising from this report

Human Resources implications and risks:

There are no Human Resources implications or risks directly arising from this report.

Equalities implications and risks:

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

BACKGROUND PAPERS

None.



PENSIONS COMMITTEE

8

16 March 2010

Subject Heading:	Discretionary Policies Update
CMT Lead:	Andrew Blake-Herbert, Director Finance & Commerce
Report Author and contact details:	Jeff Potter, Head of Exchequer Services 01708-434139
Policy context:	The Council's Discretionary Policies covered by the Pension Regulations.
Financial summary:	There maybe some savings as a result of these changes but they are unquantifiable and likely to be minimal.

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

Clean, safe and green borough	<input type="checkbox"/>
Excellence in education and learning	<input type="checkbox"/>
Opportunities for all through economic, social and cultural activity	<input type="checkbox"/>
Value and enhance the life of every individual	<input checked="" type="checkbox"/>
High customer satisfaction and a stable council tax	<input checked="" type="checkbox"/>

SUMMARY

This report notifies Members of changes to the Pension Regulations with effect from 1st April 2010 and seeks approval for amendments to the Council's discretions as a result.

RECOMMENDATIONS

1. That Members note the changes to the Pensions Regulations with effect from 1st April 2010 &
2. That Members approve the proposed amendments to the Council's discretionary policies as a consequence of the above changes.

REPORT DETAIL

The Local Government Pension Scheme introduced changes to the minimum age at which retirement benefits could be paid. These changes raised the minimum age from 50 to 55 with effect from 1st April 2010. The effect of these changes mean that employees made redundant or retired on the grounds of efficiency will no longer have an entitlement to immediate Pension benefits unless they are aged 55 or over at the effective date of their retirement.

These changes require some minor amendments to current Council policies and the amended policies with the changes highlighted are appended to this report. Members are asked to approve these minor amendments with effect from 1st April 2010 to comply with the revised regulations.

These changes do not have any impact on ill-health retirements.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no costs or financial risks as a result of this report . There maybe some savings to services where redundancies occur to staff aged between 50 and 55 but this is unquantifiable.

Legal implications and risks:

The legal implications are contained within the body of this report.

Human Resources implications and risks:

The amendments to the Pensions Regulations will be incorporated into HR policies and any subsequent organisational changes.

Equalities implications and risks:

None

BACKGROUND PAPERS

None

LOCAL GOVERNMENT PENSION SCHEME
DISCRETIONS POLICY

(April 2010)

This statement outlines the Council's policies in relation to a number of discretions that may be exercised relating to pension and compensation matters. The Council's policies as detailed here will be operated in normal circumstances. However, each case will be considered on its own merits and exceptional circumstances may merit a move from the policies as outlined in this statement.

Regulation 31

Consent to the immediate payment of pension benefits between the ages of 55 and 60

Consent to the early payment of deferred pension benefits on compassionate grounds on or after the age of 55 and the waiving of an actuarial reduction to pension benefits on compassionate grounds.

The Local Government Pension Scheme allows a scheme member to retire voluntarily (or to receive payment of deferred benefits in the case of employees who have already left) at any point from age 60. Depending on their accrued scheme membership service at that point, they may suffer a reduction in the value of their pension and lump sum. The Pension Regulations provide that employers may permit scheme members to retire (or receive payment of deferred benefits) before age 60 (as long as they have attained age 55). As with retirement after age 60, they may suffer a reduction to the value of their accrued pension and lump sum.

The Council's current policy, as determined at Investment Committee 2001, is to exercise its discretion under this Regulation after careful consideration of the merits of each individual election taking into account the Council's financial position at the time of the election.

Regulation 35

Power of the Employing Authority to enable an employee who reduces their hours or grade either by their request or action by the employer, and is over 55 and under 65 to take their pension benefits with employer consent and remain in employment.

Changes have been made to the rules of the local Government Pension Scheme allowing scheme members (and employers) to consider the option of flexible retirement. This regulation allows employees over 55 who have reduced their grade or hours to receive immediate pension benefits whilst still working.

The Council has decided to allow flexible retirement in cases where there is no or minimal cost to the Council subject to careful consideration of the

detailed merits of each individual case taking into account the Council's financial position at the time.

Regulation 52

Power of the Employing Authority to award an additional period of scheme membership to a scheme member.

This provision permits an employing authority to award an additional period of scheme membership to a scheme member (commonly referred to as "augmentation"). Subject to some other statutory limitations, the maximum that can be awarded is 10 years. The period can be awarded at any time as long as the employee who is to receive the award is still an active member of the Local Government Pension Scheme. The cost of granting the additional period of scheme membership falls entirely on the employing authority.

It is also possible to use the augmentation provision within the Local Government Pension Scheme to provide a scheme member with the alternative of augmentation rather than receiving lump sum compensation upon redundancy or grounds of efficiency under the regulations.

The Council has decided not to exercise its power of discretion under this regulation.

Regulation 53

Power of the Employing Authority to increase total membership of new employees.

This Regulation allows the Council to resolve to increase a new employee's pension membership within 6 months of them joining the Local Government Pension Scheme. The Council has decided that in general this discretion will not be exercised, having regard to the likely cost.

The Council has resolved, as determined at Investment Committee 2001, only to exercise its discretion under this Regulation after careful consideration of the merits of each individual case taking into account the Council's financial position.

Regulations 67 and 71

Power of the Employing Authority to establish shared cost AVC schemes and Transfer of former assignable rights from a scheme as a result of re-employment.

This Regulation allows the Council to resolve to establish a SCAVC scheme whereby the Council contributes as well as the member. The Council has decided not to exercise this discretion on cost grounds.

The Council has resolved, as determined at Investment Committee 2001, at this time not to establish a shared cost AVC scheme under Regulation 67 and transfers of former assignable rights (Regulation 71) will not be accepted.

Regulation 109

Power of the Employing Authority to reduce or suspend a pension payment where a scheme member who is in receipt of a pension from the Council's Fund enters a local government employment where they are again eligible to join the scheme.

This Regulation requires the Council to formulate and keep under review their policy concerning abatement (that is, the extent, if any, to which the amount of retirement pension payable to a member should be reduced (or whether it should be extinguished) where the member has entered a new employment with a Scheme employer, other than one in which he is eligible to belong to a teachers scheme).

The Council has decided that where this Regulation applies the retirement pension will be abated or reduced.

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**The Local Government (Early Termination Of Employment)
(Discretionary Compensation) (England And Wales)
Regulations 2006
Statement of Policy**

(Published **March 2010**, effective from 1st **April 2010**)

*The Council has made decisions under the above Regulations, which have resulted in the following policies being adopted. (Please note the above Regulations only apply to employees of the Council who are eligible to be members of the Local Government Pension Scheme (LGPS) and who have been employed for 2 years or more – **they do not apply to teachers**). All awards are subject to the Pension Scheme Regulations.*

Increase of Statutory Redundancy Payments

All redundancy payments will be based on an employee's actual weekly rate of pay.

Compensation for Redundancy: General

Employees whose employment is terminated by reason of redundancy will be paid according to the statutory redundancy table based on actual pay. Those who receive immediate pension benefits will have their redundancy payment capped at a maximum of £37,399.71 (current figure, this increases annually in line with JNC pay awards).

Added Pension Years Award for those aged **55 and over**

Employees aged **55** or over who are members of the LGPS and whose employment is terminated by reason of redundancy or in the interests of the efficient exercise of the authority's functions will be eligible for immediate payment of pension benefits. The Local Government (Early Termination Of Employment) (Discretionary Compensation) (England And Wales) Regulations 2006 do not provide for the award of compensatory added years.

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The Local Government Pension Scheme Regulations (as amended)

Statement of Policy (April 2010)

The Council has made decisions under the above Regulations, which have resulted in the following policies being adopted. (Please note the above Regulations only apply to employees of the Council who are eligible to be members of the Local Government Pension Scheme (LGPS) they do not apply to teachers).

Flexible Retirement

Changes have recently been made to the rules of the local Government Pension Scheme allowing scheme members (and employers) to consider the option of flexible retirement. This regulation allows employees over 55 who have reduced their grade or hours to receive immediate pension benefits whilst still working.

The Council has decided to allow flexible retirement in cases where there is no or minimal cost to the Council subject to careful consideration of the detailed merits of each individual case taking into account the Council's financial position at the time.

Elections for early retirement (with or without a reduction).

Elections made under this Regulation by members aged less than 60 are ineffective without the consent of the employing authority or former employing authority. The Council has decided to consider consent to such elections where cost savings apply which are at least equal to the compensatory lump sum payment required to be paid into the Pension Fund to cover the cost of the early retirement.

Increase of total membership of members leaving employment at or after age 55

This Regulation allows the Council to resolve to increase an employee's pension membership as an alternative to awarding compensatory added years under the Compensation Regulations. The Council has decided not to exercise this discretion.

Increase of total membership of new members

This Regulation allows the Council to resolve to increase a new employee's pension membership within 6 months of them joining the Local Government Pension Scheme. The Council has decided that in general this discretion will not be exercised, having regard to the likely cost.

Establishment of shared cost AVC scheme (SCAVCs)

This Regulation allows the Council to resolve to establish a SCAVC scheme whereby the Council contributes as well as the member. The Council has decided not to exercise this discretion on cost grounds.

Abatement of retirement pensions in new employment

This Regulation requires the Council to formulate and keep under review their policy concerning abatement (that is, the extent, if any, to which the amount of retirement pension payable to a member should be reduced (or whether it should be extinguished) where the member has entered a new employment with a Scheme employer, other than one in which he is eligible to belong to a teachers scheme). The Council has decided that where this Regulation applies the retirement pension will be abated or reduced.

If you require further information on any of the above please contact Pensions on ext. 2274 or your Personnel Team.