

### PENSIONS COMMITTEE AGENDA

7.30pm

Tuesday, 17 March 2009 Havering Town Hall, Main Road, Romford

Members 7: Quorum 3

**COUNCILLORS:** 

**Conservative Group** 

**(4)** 

Melvin Wallace - (Chairman)

Roger Ramsey - (V.Chairman)

Robby Misir

Robbie Benham

Residents' Group

**(2)** 

Clarence Barrett Linda van den Hende Independent Residents (1)

Jeffrey Tucker

**Trade Union Observers** 

(No Voting Rights)

**(2)** 

Brian Long (Unison) Sean Ramsden (TGWU) Admitted / Scheduled Bodies Representative (No Voting Rights)

(1)

**David Holmes** 

For information about the meeting please contact:

James Goodwin (01708) 432432

E-mail: james.goodwin@havering.gov.uk

### NOTES ABOUT THE MEETING

### 1. HEALTH AND SAFETY

The Council is committed to protecting the health and safety of everyone who attends meetings of its Committees.

At the beginning of the meeting, there will be an announcement about what you should do if there is an emergency during its course. For your own safety and that of others at the meeting, please comply with any instructions given to you about evacuation of the building, or any other safety related matters.

### 2. 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.

### 3. 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 16 December 2008 and the Special meeting held on 10 February 2009 and authorise the Chairman to sign them

- 5. PENSION FUND: 2008/09 AUDIT PLAN
- 6. PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 31 DECEMBER 2009-03-09
- 7. ANNUAL REPORT OF THE COMMITTEE 2008/9 AND ANNUAL PLAN AND TRAINING PROGRAMME 2009/10

### 8. 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.

### 9. 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 7 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.

**Cheryl Coppell**Chief Executive

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

16 December 2008 (7.30pm – 10.05pm)

**Present:** 

**COUNCILLORS** 

**Conservative Group** Roger Ramsey. (in the Chair), Robbie Benham,

Robby Misir and +Frederick Thompson

Residents' Group Clarence Barrett

**Independent Residents** Jeffrey Tucker

**Trade Union Observer** \*Brian Long and \*John Giles (UNISON).

Admitted / Scheduled Bodies Representative

**David Holmes** 

Apologies for absence were received from Councillors Melvin Wallace and Linda Van den Hende.

+substitute member: Councillor Frederick Thompson (for Melvin Wallace)

\*left part way through the meeting.

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

There were no declarations of interest.

### 23 MINUTES

The minutes of the Committee meeting held on 4 November 2008 were agreed as a correct record, subject to the amendment of the penultimate paragraph of minute 18 to read

'The Committee noted that officers were mindful that the fund may not be receiving best value for money on some of the interest payable on cash held and had requested State Street to review this. The Committee also questioned the need for an open ended contract and was advised that it would be advantageous to keep the contract open as long as value for money was being obtained and to avoid expensive re-tendering costs.' The minutes were subsequently signed by the Chairman.

### 24 PENSION FUND PERFORMANCE MONITORING REPORT FOR THE QUARTER ENDED 30 SEPTEMBER 2008

The Chairman drew Committee Members attention to the Council officers' report and the three accompanying presentation briefings by Hymans Robertson (Pension Fund Investment Advisors), UBS (Property Portfolio Managers) and Alliance Bernstein (Global Equity Manager).

(a) Hymans Robertson were invited to summarise their opinion on market conditions and the contents of the two presentations briefings by the Asset Portfolio Managers.

In the words of Hymans Robertson financial meltdown was not too strong a term to describe the events of the closing weeks of the quarter ending 30 September 2008. The sheer scale of the crisis stood head and shoulders above numerous financial 'accidents' of the last twenty years or so. The roll call of casualties and near casualties was staggering. In the US, mortgage giants Fannie Mae and Freddie Mac and the international insurer AIG were saved by the government: in contrast, Lehman Brothers was allowed to succumb to market pressures, whilst other investment banks (Merrill Lynch, Goldman Sachs, and Morgan Stanley) each sought the security of external stakes in response to the threat posed by adverse market influences. In the UK, HBOS was to be absorbed by Lloyds TSB, a merger that would have been prohibited by competition laws in 'normal' circumstances.

In the UK, the FTSE All Share index returned -12.2%. The sense of panic in financial markets intensified in early October. In the UK, the government introduced a massive programme in support of the banking sector which included taking major stakes in RBS, Lloyds and HBOS in return for additional capital. Since the report had been produced the market had seen further falls with Global Equities down 23% and UK Equities down 31%.

### (b) PRESENTATION BY PROPERTY MANAGERS – UBS

The Committee received a presentation by UBS on the performance of the Property portfolio. The year had seen a reduction in the markets of 18% in value with a further 6.6% drop in November. Transaction levels were low with German funds being withdrawn from the market. UBS has had a good year in letting space but had needed to sell property to cover redemptions brought about by investors leaving the fund. The bulk of these had been paid out in Quarter 4 of 2007.

Havering's share in the UBS Triton Property fund has decreased in value by 12.7% since 31<sup>st</sup> March 08.

UBS underperformed the benchmark in the quarter by -1.5% and underperformed against the benchmark by -2.4% over the last 12 months.

In response to questions the Manager advised that UBS does not use gearing to fund investment. They were receiving inquiries from potential new investors and

were expecting more in the New Year.

UBS has a strong stable team and whilst next year would be difficult they anticipated an upturn in 2010. They believe their properties are undervalued, but they have a good record of innovation although they accept their void rate is higher than they would wish.

The investment Adviser advised the Committee that whilst UBS performance could be better their proportion of redemptions was relatively low. If the Council decided to leave the fund this would take up to twelve months to materialise. They would prepare some comparisons of UBS's performance against their competitors. This time they would not recommend withdrawing funds from UBS, conversely they would not recommend investing any further funds at this time

With regard to the new opportunity being offered by UBS, the opportunity to invest in shares in property companies rather than in property itself the committee felt it was not the right time to make any decision and requested a further report to next meeting of the Committee.

### (c) PRESENTATION BY GLOBAL EQUITIES MANAGERS – Alliance Bernstein

The committee received a presentation from Alliance Bernstein (AB) in respect of their Global Style Blend of investment. This builds on a history of strong returns in growth and value and mitigates style risk through negatively correlated premiums. This style had suffered in the recent market with many illogical variances. E.g. fall in return on Emerging Markets Equities and rise in return on US Dollar.

Performance in quarter 3 was significantly below benchmark by -7.3% (net of fees) and they had underperformed the target by --7.9%. Since inception they are -2.4% below benchmark and -4.9% below the target.

AB's investment in Finance, specifically AIG, Fanny Mae, Lehman Brothers, Morgan Stanley, HBOS and Fortis had fuelled their underperformance. They accepted that they had clearly made errors in stock selection and they had implemented fixes at the margins to address the problem but would not be changing their underlying strategy.

In response to questions the Committee was advised that AB did not believe the Bernard Madoff fraud case would have any significant impact on their investments as no direct investments were made but AB had invested in some institutions affected.

The Committee was advised that whilst the economy was likely to be in a worse state in 2009 AB did not believe that this would necessarily be reflected in the equities market. Similarly they were not concerned about the state of the American car market as they felt that this would not be another Lehman style collapse but more likely a Chapter 11 situation with Chrysler and GM having to restructure and renegotiate labour contracts. They did not have investments in the American Car industry, but did have investments in the Japanese car industry.

AB further advised that they were not strategically hedging on currency and they will benefit by the strength of the dollar and euro against the pound.

The Committee considered comments from the Investment Adviser and officers and agreed that a special meeting be arranged to consider Alliance Bernstein's performance through Quarter 4. This meeting could be arranged for the same day that Alliance Bernstein were due to meet officers if possible. The Council would set the coverage expected from AB for this meeting and want significant time available for questions. At this meeting the Committee would like to see information on how our pension fund was performing compared to others, and comparison's of how Alliance Bernstein is performing against their competitors.

- (d) Having considered the three presentations and the officers report, the Committee agreed to
  - 1. retain the £7.5m intended for transfer to Alliance Bernstein and place the funds on three months deposit:
  - 2. authorise the Group Director, Finance and Commerce, in consultation with the Chairman, to agree a level of flexibility with Royal London in the disposal of bonds which were downgraded below BBB-, subject to them providing further details of which bonds will be held and their rating. Details to be provided in writing to all members of this committee;
  - 3. note that no Corporate Governance issues have arisen for the Investment Managers;
  - 4. note the analysis of internal cash balances: and
  - 5. the comments regarding State Street will be reconsidered at the special meeting to be arranged before the March committee.
  - 6. the cash held with State Street on behalf of the pension fund will be deferred to the special meeting to be arranged.

### 25. CUSTODIAN MONITORING AND VALUE FOR MONEY

Further to minute no 18 officers had discussed with State Street the possibility of revising the current fee structure. Initial discussions had been positive and officers believed that savings could be delivered through this route. State Street had proposed that a revised fee schedule be developed with a view to implementation effective from 1 January 2009.

The Council had been approached by Thomas Murray Limited a specialist firm providing custodian evaluation, selection, rating and monitoring services to institutional investors. They would be able to provide the following services to the Council:

- a) An overall Havering specific opinion of State Street's ability to meet its ongoing obligations across key areas such as asset safety, financial strength and asset servicing amongst many others. (using a familiar AAA to C scale)
- b) A fee schedule comparison against similar live bids known to Thomas Murray.

- c) A clause by clause commercial evaluation of the Global Custody Agreement.
- d) A quarterly assessment of the relative quality of the operational service Havering receives from the custodian.
- e) An annual assessment of Foreign Exchange (FX) activity that benchmarks FX executed by the custodian against daily market rates, and
- f) Benchmarks interest rates providing a peer group and market rate comparison for Euro, Sterling and US Dollar cash held on the custodian's balance sheet.

Officers believed there was scope to achieve benefits from examining the fee schedule, foreign exchange and interest rates and had raised these with State Street. It was expected these would be addressed as part of the review of fee structure.

Having considered the report the Committee **RESOLVED** to authorise the Group Director, Finance and Commerce;

- a) To consider the revised contract proposal from State Street PLC and agree revisions which achieve improved value for money.
- b) in the event that the negotiations with State Street do not deliver best value, to seek bids from the two companies currently providing a custodian monitoring service, initially for a one year period with an option to extend by one year and that the requirement in Schedule B of the Contract Procedure Rules to seek three bids be waived accordingly

### 26. SUSPENSION OF STANDING ORDERS

During the discussion of the reports the Committee **RESOLVED** to suspend Committee Meeting Procedure Rule 8 in order to complete the consideration of the remaining business of the agenda.

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

10 February 2009 (3.30pm – 5.30pm)

**Present:** 

**COUNCILLORS** 

Conservative Group Melvyn Wallace (in the Chair) and Roger

Ramsey.

**Residents' Group** Clarence Barrett and \*Ray Morgon

**Trade Union Observer** Brian Long (UNISON).

Admitted / Scheduled Bodies Representative

**David Holmes** 

Apologies for absence were received from Councillors Robert Benham, Linda Van den Hende and Robbie Misir.

\*substitute member: Councillor Ray Morgon (for Linda Van Hende)

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

There were no declarations of interest.

### 27 EXCLUSION OF THE PUBLIC

The Committee decided on the motion that the public should be excluded from the meeting during discussion of the matter referred to in the minute next following on the ground that it was likely that, in view of the nature of the business to be transacted, if members of the public were present there would be disclosure to them of exempt information within the meaning of paragraph 7 of Schedule 12A to the Local Government Act 1972 which is commercially confidential and it was not in the public interest to publish the information.

### 28 PENSION FUND OVERVIEW

Having considered the presentations from Hymans Robertson and their responses to the questions asked the Committee have **AGREED** to:

- make the necessary arrangements to put in place contingency measures should it become necessary to withdraw funds from any of the Fund Managers'
- 2. give Firm A more time to recover their poor performance but officers are to prepare monthly up dates on both Firm A's performance and the performance of the other Fund Managers,
- 3. investigate monitoring arrangements implemented by other pension funds with regard to Firm A'
- 4. defer any decision on the balancing of investment in Property assets,
- 5. Hold on to current cash levels on the basis that:
  - the cash, in proportion to the rest of the fund, not being huge and the remainder of the fund being in a position to benefit from a bounce back,
  - the current conditions are unprecedented, and
  - arrangements will be made to amend the strategy to provide the committee with the flexibility of holding cash'
- 6. reconsider our possible investment in alternatives at our next meeting in the light of market performance,
- 7. note that Royal London have agreed to keep Officers and the Committee fully up dated on the bonds that are downgraded from the permissible limit of BBB-:
- 8. note that £3.8m in cash had been withdrawn from State Street when their credit rating was downgraded, with the cash being placed on deposit with the Debt Management Board; and that State Street subsequently have had their credit rating changed from negative to stable,
- 9. request Fund Managers to simplify their presentations to enable more meaningful questions to be asked; and
- 10. In the light of the above decisions to undertake a review elements of the Investment Strategy at the next meeting.

### 29 ANY OTHER BUSINESS

The Committee noted that for 2008/9 the Pension Fund would be audited separately from the Council's accounts. Price Waterhouse Coopers the new external auditors would be attending the next meeting to discuss their requirements.

## Pension Fund: 2008/09 Audit Plan London Borough of Havering





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PricewaterhouseCoopers LLP 80 Strand

The Town Hall

Main Road

Romford RM1 3BB 9 March 2009

Ladies and Gentlemen,

We are pleased to present to you our plan for the audit of the Havering Pension Fund. This is the first time that a separate Plan for the audit of the Pension Fund has been prepared. However, the increased interest in Pension matters, the scale of the assets and liabilities involved and the level of risk relating to the pension accounts all demonstrate why a greater focus on the Fund is timely. This plan includes an analysis of key risks, our audit strategy, reporting and audit timetable and other matters. Discussion of our plan with you ensures that we understand your concerns and that we agree on our mutual needs and expectations to provide you with the highest level of service quality.

We would like to thank members and officers of the Council for their help in putting together this Plan.

As well as presenting the Plan to you we propose to share its main elements with the Audit Committee of the London Borough of Havering (the Council), to ensure that all of those responsible for the governance of the Fund are aware of our intentions. If you would like to discuss any aspect of our Audit Plan please do not hesitate to contact either David Braithwaite or Ciaran McLaughlin.

Yours faithfully,

PricewaterhouseCoopers LLP

### Contents

In April 2008 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end, and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement.

Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body, and no responsibility is taken by auditors to any Member or officer in their individual capacity, or to any third party.

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## Introduction

## The purpose of this Plan

From 2008/09 onwards, our audit of the London Borough of Havering's Pension Fund ("the Fund") is regarded by the Audit Commission as a separate audit. This requires us to produce a separate audit plan, audit opinion and ISA 260 report on the Fund's accounts as well as a review of the Pension Fund annual report.

This Audit Plan has been prepared to inform those responsible for the governance of the Fund about our responsibilities as the external auditors of the London Borough of Havering (the Council) and how we plan to discharge

The Council acts as the administering authority for the Fund, and as such is accountable for the stewardship of the funds. The responsibility for this stewardship is discharged on a day to day basis by the Pensions Committee. Our principal objective is to carry out an audit in accordance with the Audit Commission's Code of Audit Practice (the Code).

Based upon discussion with management and our understanding of the Council and the local government sector, we have noted in the next section recent developments and other relevant risks. Our plan has been drawn up to consider the impact of these developments and risks.

We would like to thank Members and officers of the Council for their help in putting together this plan.

## Code of Audit Practice and Statement of responsibilities of auditors and of audited bodies

We perform our audit in accordance with the Audit Commission's Code of Audit Practice (the Code) which was issued in March 2005. This is supported by the Statement of Responsibilities of Auditors and of Audited bodies (the Statement) issued in April 2008 and both are available from the Chief Executive.

The purpose of the Statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end, and what is to be expected of the audited body in certain areas.

Our reports follow the Statement and are in line with the Code. Although reports may be addressed to officers or members of the Council, they are prepared for the sole use of the audited body. Auditors do not have responsibilities to officers or Members in their individual capacities or to third parties who choose to place reliance upon the reports from auditors.

## Reporting responsibilities

To discharge our responsibility to report to those responsible for the governance of the Fund we propose to present any detailed reports to the Pension Committee. We will however include a summary of the main issues in our plans and reports to the Audit Committee of the Council, as the administering authority of the Fund.

## Risk assessment

### Planning of our audit

We have considered the Fund's operations and have assessed the extent to which we believe there are potential Fund and audit risks. We consider an audit risk to be the risk that we may reach an inappropriate opinion on the financial statements. We have considered our understanding of how your control procedures mitigate these risks. Based on this assessment we have scoped our core work in each of these areas.

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

In this Plan we detail those areas which we consider to be significant risks relevant to our audit responsibilities and our response to those risks. Significant risks are those risks requiring special audit attention in accordance with auditing standards.

In addition, we also identify other risks affecting the Council and our response to these risks.

Our response includes details of where we are intending to rely upon internal controls, other auditors, inspectors and other review agencies and the work of internal audit, if applicable.

### Risk assessment results

The following table summarise the results of our risk assessment and our planned response. We have highlighted the significant risks for our audit with a \* in the title.

Audit approach		We will discuss with the Group Director Finance and Commerce the latest advice and reports received from the Fund's actuaries. We will review the assumptions used in the actuarial valuation of the fund and consider the extent to which these are still reasonable, given the unexpected economic downturn since the last triennial valuation. We will compare these assumptions with our database of expected assumptions.  We will seek representation from those charged with governance on significant matters of judgement.	We will send investment confirmations to fund managers to obtain an independent valuation of the fund's assets. We will also review the investment valuations at the date our audit opinion and evaluate the impact of any material difference in valuation and consider whether there is a need for disclosure of post balance sheet events (PBSE) in either the accounts or the annual report.  Any such PBSE would be non-adjusting as there is no change of conditions at the balance sheet date There is no requirement to disclose a PBSE for falls in share prices that are not material. If the Council chooses to disclose, this would not be a concern, providing the disclosure does not mislead the reader of the accounts.
Current Developments	Business Risks	Valuation of the Pension Fund*  The fund was assessed as being 68% funded and had a deficit of £168 million at the last triennial valuation as at 31 March 2007. The actuary's view at that time was that the scheme was likely to meet its liabilities in the normal course of events. The sharp fall in the value of investments and expectations of lower longer term investment returns may have reduced the fund's ability to meet its liabilities. Havering's general response to adverse market conditions, like other councils, has been one of prudence. This has resulted in higher investment in government stocks and other relatively safe arrangements that do not generate the levels of investment income receivable in the recent past.  In such circumstances it may be appropriate to review the actuarial assumptions underpinning the latest triennial valuation and test whether these assumptions are still sustainable and the impact of any change to the assumptions on the level of funding.	Valuation of investments*  The current volatility of stock markets will impact on the valuation of investments at the end of the year and on the net assets of the fund. It is also possible that there may be significant movements in investment values between the end of year and the reporting date.

Other Risks	
Reliance on controls within asset managers	
The Council's Pension Fund Investment Managers operate within agreed parameters and their performance is reviewed by the Pensions Committee. Recent events have highlighted the importance of the Council satisfying itself that the controls in place at its fund managers are robust.	We will understand and evaluate how the Council satisfies itself that controls within the Fund's asset managers are operating effectively and that they comply with the parameters and instructions set by the Council.  We will seek to obtain and review AAF1 or SAS 70 reports for each Fund Manager which provide an independent opinion on the controls operating at fund managers. We will assess whether there is need for additional assurance as part of our approach to the accounts.
New Pension SORP.	
There is a new Pension SORP which applies to the 2008/09 accounts The Financial Reports of Pension Schemes (2007) provides authoritative guidance on pension fund annual reports and accounts of funded pension schemes. The main changes are that:	We will discuss the SORP requirements with management as part of our planning process to ensure that the necessary changes have been made. We will review the pension fund accounts and check for SORP compliance.
• it has been updated to take account of the financial reporting standards issued in respect of investments	
<ul> <li>any derivatives are now required to be valued on a fair value basis</li> </ul>	
• investments are required to be valued at their fair value	
There are also amended and increased disclosure requirements.	
There is a risk that the accounts may not properly reflect the amendments.	
The Local Government Pension Scheme (Administration) Regulations 2008  New Regulations apply to the content of annual reports. These are similar to the regulations for the previous year and include the requirement for the report to contain summary financial information comprising "the fund account and net asset statement with supporting notes and disclosures prepared in accordance with proper practices".	We will discuss the new Regulations with officers. We will review the summary financial information in the annual report, assess its adequacy and give a 'consistent with' opinion on the annual report which should be include within the annual report

## Changes to the Pension schemes and fund administration

There have been changes including updates to the regulations on the Rule of 85, tiered contributions, ill health and death benefits.

The changes need to be incorporated within the administration processes and through the Pensions System.

We note that the Council works in partnership with the London Borough of Redbridge in order to reduce costs and share knowledge in relation to the pension fund.

The responsibility for the design and maintenance of an appropriate system of internal controls to provide reasonable assurance that the accounting systems provide timely, accurate and reliable financial information and to safeguard the Fund's assets, is part of the Council's and management's overall responsibility for the day-to-day operations of the Fund. We will understand and evaluate the controls in place over pension scheme administration. Where we seek to place reliance on internal audit work we will review their working papers and perform an element of reperformance.

We will agree our audit approach for the Fund once we have completed the documentation and evaluation of the systems and controls in place..

We will target higher risk areas and significant transactions e.g. we will substantively test a sample of transfers in and out.

## Our approach to the audit

### Code of Audit Practice

Under the Audit Commission's Code we are responsible for the audit of the financial statements of the Fund. That involves

- Expressing our opinion on the financial statements of the Fund as they appear in the Statement of Accounts of the Council; and
- Reviewing the accounts that appear in the Annual Report of the Fund, to give a view as to whether they are consistent with the Statement of Accounts

### Accounts

Our Accounts audit is carried out in accordance with our Accounts Code objective, which requires us to comply with International Standards on Auditing (ISAs) (UK & Ireland) issued by the Auditing Practices Board (APB). We plan and perform our audit to be able to provide reasonable assurance that the financial statements are free from material misstatement and present fairly the financial position of the Fund.

Our audit approach is based on gaining a thorough understanding of the operation of the fund and is risk-driven. It first identifies and then concentrates resources on areas of higher risk. This involves breaking down the accounts into components. We assess the risk characteristics of each component to determine the audit work required.

We will adopt a top-down, controls-based approach to the audit, where we will drill down the management structure and review key processes. We will focus our work on verifying, evaluating and validating, where possible, the controls you use, to ascertain how much assurance we can draw from them. We will supplement this controls work with detailed analytical review procedures and additional substantive tests where necessary.

In undertaking our work we will take due account of the Auditing Practices Board Practice Note 15. We also aim to rely on the work done by internal audit wherever possible. We will ensure that a dialogue is maintained with internal audit throughout the year. We receive copies of all relevant internal audit reports, allowing us to understand the impact of their findings on our planned approach

### **Materiality**

Determining materiality is a matter of professional judgement and includes consideration of both the amount and nature of transactions. We apply a method to calculating materiality, based on 1% of turnover (pension contributions and investment income). We will confirm the level of materiality used in our audit findings report. However, materiality is not simply a quantitative figure. Qualitative aspects also need to be considered in assessing whether something would be significant to a user of the financial statements. The final assessment as to what comprises a material error in the financial statements is a matter of judgement based on relevant auditing standards and guidance.

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## Our team and independence

Audit Team	Responsibilities
Engagement Director David Braithwaite 020 7804 2369 david.braithwaite@uk.pwc.com	Engagement Leader responsible for independently delivering the audit in line with the Code of Audit Practice, including agreeing the Audit Plan, Audit Memorandum and Annual Audit Letter, the quality of outputs and signing of opinions and conclusions. Also responsible for liaison with the Chief Executive and Members.
Engagement Senior Manger Ciaran McLaughlin 020 7213 5253 ciaran.t.mclaughlin@uk.pwc.com	Senior Manager on the assignment responsible for overall control of the audit engagement, ensuring delivery to timetable, delivery and management of targeted work and overall review of audit outputs. Completion of the Audit Plan, Audit Memorandum and Annual Audit Letter.
Audit Manager: Accounts Marisa Crook 020 7804 8118 marisa.coork@uk.pwc.com	Manager on the assignment responsible for managing our accounts work, including the audit of the statement of accounts, and governance issues.

### Our team members

We are committed to properly controlling succession within the core team, providing and preserving continuity of team members.

We will hold periodic client service meetings with you, separately or as part of other meetings, to gather feedback, ensure satisfaction with our service and identify areas for improvement and development year on year. These reviews form a valuable overview of our service and its contribution to the business. We use the results to brief new team members and enhance the team's awareness and understanding of your requirements.

## Independence and objectivity

We have made enquiries of all PricewaterhouseCoopers' teams providing services to you and of those responsible in the UK Firm for compliance matters. There are no matters which we perceive may impact our independence or the objectivity of the audit team.

PricewaterhouseCoopers LLP

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## Relationships and Investments

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

### Independence conclusion

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

## Communicating with you

## Communications Plan and timetable

ISA (UK&I) 260 'Communication of audit matters with those charged with governance' requires auditors to plan with those charged with governance the form and timing of communications with them. We have assumed that 'those charged with governance' are Pensions Committee, while the Audit Committee also has a legitimate interest in Fund governance. Our team works on the engagement throughout the year to provide you with a timely and responsive service. Below are the dates when we expect to provide the Audit Committee with the outputs of our audit.

Our Audit Plan for the Council set out our planned reporting arrangements in respect of matters affecting the Council as a whole. The Table below explains how we intend to deal with issues relating to the Fund

Stage of the audit	Output	Timing
Audit planning	Audit Plan for the Fund	March 2009
Audit Reports	Annual Audit Letter to the Council which will incorporate specific comment on the Fund, including that required by Auditing Standard (ISA (UK&I) 260), such as:  Any expected modifications to the audit report	September 2009
	<ul> <li>Uncorrected misstatements, i.e. those misstatements identified as part of the audit that management have chosen not to adjust</li> </ul>	
	<ul> <li>Material weaknesses in the accounting and internal control systems of the Fund identified as part of the audit</li> </ul>	

Stage of the audit	Output	Timing
	<ul> <li>Our views about the qualitative aspects of your accounting practices and financial reporting</li> </ul>	
	<ul> <li>Internal controls issues and recommendations for improvement</li> </ul>	
	<ul> <li>Any other relevant matters of governance interest</li> </ul>	
	Opinion on the Financial Statements of the Fund	September 2009
	'Consistent with' opinion on the accounts in the annual report	September 2009

## Audit budget and fees

As noted above, from 2008/09 onwards, our audit of the Fund is now regarded by the Audit Commission as a separate audit. As set out in our analysis of risk there are significant risks which affect the audit of pension funds this year. There are also additional disclosure requirements that have to be prepared and audited for the first time and a requirement for greater audit coverage of assets, liabilities and transactions. Finally the disaggregation of the external audit requires a separate plan, opinion and report on the audit of the Pension Fund as well as a review of the Pension Fund annual report.

We are required to report the fee directly to those charged with governance of the Pension Fund. The Audit Commission has provided audit fee levels for pension funds for the 2008/09 financial year, which depend upon scale and complexity. Based on the information available and our assessment of risk, we have applied the mid-point fee. The Audit Commission guidance is that the mid point fee for the audit of pension funds at London Boroughs is £38,000.

Our fee is contingent upon:

- Officers meeting the timetable of deliverables, which we will agree in writing;
- We are able to place reliance, as planned, upon the work of internal audit;
- We are able to draw comfort from your management controls;
- The separate Pension Fund Annual Report being available on a timely basis;

Should there be any difficulties in these respects, we will discuss the implications with you and form a view whether or not any additional work can be accommodated within our agreed fee proposal for the Pension Fund external audit.

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# Appendix A: Other engagement information

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

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

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

## Electronic communication

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

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

We each recognise that systems and procedures cannot be a guarantee

that transmissions, our respective networks and the devices connected to these networks will be unaffected by risks such as those identified in the previous two paragraphs. We each agree to accept the risks of and authorise (a) electronic communications between us and (b) the use of your network and internet connection as set out above. We each agree to use commercially reasonable procedures (i) to check for the then most commonly known viruses before either of us sends information electronically or we connect to your network and (ii) to prevent unauthorised access to each other's systems.

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

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

### Appointed auditor

David Braithwaite, a director in the firm, will discharge the responsibilities of the appointed auditor and in doing so will bind the firm although David Braithwaite is not a partner.

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## Access to audit working papers

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

included or may subsequently wish to include in the information is reproduced in report or any part thereof, it shall ensure that any disclaimer which PwC has

full in any copies disclosed.

### **Quality arrangements**

for any reason, you would prefer to discuss these matters with someone other than that partner, please contact Paul Woolston, our Audit Commission Lead Partner at and promptly. We undertake to look into any complaint carefully and promptly and We want to provide you at all times with a high quality service to meet your needs. If at any time you would like to discuss with us how our service could be improved WC2N 6NN. In this way we can ensure that your concerns are dealt with carefully complain to the Institute of Chartered Accountants in England and Wales or to the mmediately with the partner responsible for that aspect of our services to you. If, or if you are dissatisfied with any aspect of our services, please raise the matter our office at 89 Sandyford Road, Newcastle Upon Tyne, NE99 1PL, or Richard Sexton, UK Head of Assurance, at our office at 1 Embankment Place, London, to do all we can to explain the position to you. This will not affect your right to Audit Commission.

## Events arising between signature of accounts and their publication

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

If you have any queries on the above, please let us know before approving the Audit Plan or, if arising subsequently, at any point during the year

## Freedom of Information Act

audited body shall apply any relevant exemptions which may exist under the Act to In the event that, pursuant to a request which the audited body has received under representations which PwC may make in connection with such disclosure and the contained in this report, it will notify PwC promptly and consult with PwC prior to such report. If, following consultation with PwC, the audited body discloses this the Freedom of Information Act 2000, it is required to disclose any information disclosing such report. The audited body agrees to pay due regard to any

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

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MEETING DATE ITEM

PENSIONS COMMITTEE

17 MARCH 2009

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### REPORT OF THE CHIEF EXECUTIVE

SUBJECT: PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 31 DECEMBER 2008

**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 2008. 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 <u>quarter</u> to 31 December 2008 was **-8.1%**. This represents an under performance of **-3.5%** against the combined tactical benchmark and an underperformance of **-19.6%** against the strategic benchmark.

The overall net return of the Fund's investments for the <u>year</u> to 31 December 2008 was **-25.0%**. This represents an underperformance of **-9.7%** against the annual tactical combined benchmark and an underperformance of **-35.7%** 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. Quarter 4 started with the threat of multiple bank failures, a number of which were rescued only by government intervention.

Forecasts of global economic prospects were revised downwards and it is by no means clear that the worst is over.

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

### **RECOMMENDATION**

### That the Committee:

- 1) Considers Hymans performance monitoring report and presentation (Appendix A).
- 2) Receives presentations from the funds UK Equities Manager (Standard Life) and the Investment Grade Bonds Manager (Royal London).
- 3) Notes the summary of the performance of the Pension Fund within this report.
- 4) Considers the quarterly reports provided by each investment manager.
- 5) Considers and notes any Corporate Governance issues arising from voting as detailed by each manager.
- 6) Considers any points arising from officer monitoring meetings (section 5 refers).
- 7) Notes the analysis of the cash balances (paragraphs 2.2 and 2.3 refer).
- 8) Notes the following within other matters (section 4 refers):
  - a) actions taken in respect of State Street and its current position.
  - b) the results of the credit check on the fund managers
  - c) action taken with regard to investment regulations consultation.
- 9) Considers if any actions are necessary to change the investment strategy.
- 10) Agree that if the investment strategy is amended the Group Director of Finance and Commerce be authorised to amend and publish the revised Statement of Investment Principles.

### 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> <li>50% iBoxx Sterling Non Gilt Over 10 Year Index</li> <li>16.7% FTSE Actuaries UK Gilt Over 15 Years Index</li> <li>33.3% FTSE Actuaries Index- Linked Over 5 Year Index</li> </ul>	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 and kept under review until the market settles	

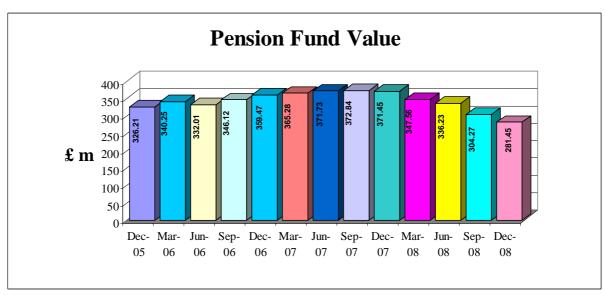
- 1.4 The bond mandate with Western Asset was terminated on 1 August and cash is being transferred in stages to Alliance Bernstein. The allocation to Royal London will remain at 30% until a decision has been made with regard to investing in an alternative asset class in which it will then be reduced 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. Managers who are to make presentations to this Committee are:

- UK Equities Manager (Standard Life)
- Investment Grade Bonds Manager (Royal London)
- 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 2008 was £281.45m. 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 £304.27m at 30 September 2008; a decrease of (£22.8m). The decrease in the fund value is attributable to fund performance, resulting in a decrease of (£23.5m) and an increase in internal cash of £0.7m. The internally managed cash level totals £7.2m, of which an analysis follows in this report. The Quarter 4 performance is also outlined in this report.



Source: WM Company (Performance Measurers)

2.2 An analysis of the internally managed cash balance of £7.2m follows:

<b>CASH ANALYSIS</b>	<u>2004/05</u>	<u>2005/06</u>	<u>2006/07</u>	<u>2007/08</u>	<u>2008/09</u>
	£000's	£000's	£000's	£000's	£000's
Balance B/F	115	-792	-3052	-3706	-6673
Benefits Paid Management costs Net Transfer Values Employee/Employer Contributions Cash from/to Managers Internal Interest	17926 825 1979 -19195 -2462	19286 1435 962 -21777 -2114	20886 1592 -1341 -23536 1945	22852 1869 -2520 -24922 0	17603 1325 187 -19259 -220
Movement in Year	-907	-2260	-654	-2967	-596
Balance C/F	-792	-3052	-3706	-6673	-7269

2.3 In addition to the internally managed cash above, the fund currently has £7.5m cash on deposit, which is the balance of cash remaining from Westerns redemption and £3.8m cash that was being held by State Street. This was withdrawn from State Street in February and placed on cash deposit with the Treasury's Debt Management Board.

### 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) is shown below:

	Quarter to 31.12.08	12 Months to 31.12.08	3 Years to 31.12.08	5 years to 31.12.08
Fund	-8.1%	-25.0%	-5.7%	2.1%
Benchmark return	-4.7%	-17.0%	-2.1%	4.3%
*Difference in return	-3.5%	-9.7%	-3.7%	-2.1%

Source: WM Company

<sup>\*</sup> 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 31.12.08	12 Months to 31.12.08	3 Years to 31.12.08	5 years to 31.12.08
Fund	-8.1%	-25.0%	-5.7%	2.1%
Benchmark return	14.3%	16.6%	8.3%	10.6%
*Difference in return	-19.6%	-35.7%	-12.9%	-7.5%

Source: WM Company

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 quarter 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 2008)**

	Standard Life	Alliance Bernstein	Royal London	UBS
Return (performance)	-16.00	-9.50	2.20	-15.80
Benchmark	-10.20	-3.80	2.90	-14.10
*Over/(Under) Performance vs. Benchmark	-6.45	-5.92	-0.68	-1.58
TARGET	-9.70	-3.18	3.09	n/a
* Over/(Under) Performance vs Target	-6.97	-6.53	-0.86	n/a

Source: WM Company, Fund Managers and Hymans

<sup>\*</sup> Totals may not sum due to geometric basis of calculation and rounding.

<sup>\*</sup> Totals may not sum due to geometric basis of calculation and rounding.

	DEDEADMANAE /	LACT 40 MONTHON
ANNUAL	PERFORMANCE (	LAST 12 MONTHS)

ANNUAL Return (performance)	Standard Life -38.80	Alliance Bernstein -33.00	Royal London -2.60	<b>UBS</b> -26.80
Benchmark  *Over//Under) Performance	-29.90	-20.00	-0.20	-23.70
*Over/(Under) Performance vs. Benchmark	-12.69	-16.25	-2.40	-3.10
TARGET	-27.90	-17.50	0.55	n/a
* Over/(Under) Performance vs Target	-14.40	-18.78	-3.13	n/a

Source: WM Company, Fund Managers and Hymans

### 4. Other matters to note

4.1 Assets held by State Street on our behalf are held separately from State Street assets as ownership remains with the Pension Fund. However cash deposits held with State Street are subject to a level of risk associated with their credit rating just like other banks. Credit Ratings are opinions of credit risk with an AAA rating being the highest and C being the lowest.

Given the current volatility within the global financial markets State Street's credit rating is being closely monitored. In January ratings issued by Fitch downgraded State Street to AA- and were put on a negative watch. At the time of writing this report the negative watch had been removed and the outlook on the long-term rating is stable.

£3.8m in cash was withdrawn from State Street in February and placed on cash deposit with the Treasury's Debt Management Board.

- 4.2 Credit checks were also undertaken on our Fund Mangers by our Business Development Unit, the outcome of which means they have been categorised as a high risk. Members should be aware that the funds assets are safeguarded as ownership is with the Havering Pension fund (held in trust via State Street). However the risk to the Fund would be the costs involved in finding a replacement Fund Manager should any of these companies fail and there may be a dip in performance if key personnel left the companies due to its instability.
- 4.3 In February the Communities and Local Government (CLG) issued a consultation paper on the proposed revised Investment Regulations. The consultation exercise is primarily a consolidation of the 1998 regulations, as amended, but does include several proposals on separate bank accounts, borrowing and employer related loans. Comments have been invited and the deadline for response is the 3 April 09. The Authority is of the view that it is

<sup>\*</sup> Totals may not sum due to geometric basis of calculation and rounding.

not worth responding to the consultation on the basis that the CLG has fixed views given the current climate and CIPFA were involved in the review process. The main implication of the proposed regulations is the necessity for the pension fund to have a separate bank account from the Authority's accounts. The Authority, when necessary, will begin preparations to incorporate the new requirements.

- 4.4 At the February meeting, Members considered the UBS listed shares fund but decided to postpone the decision until this meeting.
- 4.5 The strategy adopted by the Committee in September 2008 set out the target asset allocations as follows:

	Revised Allocation	Previous Allocation
UK Equities	30	30
Global Equities	30	20
Investment Grade Bonds	25	30
Property	10	10
Alternatives	5	0
Global High Yield Bonds	0	10

- a) The most significant change was the move to alternatives. Since that time the economic climate has meant significant uncertainty generally. In view of this the Committee whilst having received presentations on options for alternatives, have been minded to postpone this change. The current strategy does states that the asset allocation "...is subject to review pending further investigation into effective ways for gaining access to alternative investments and a return to less volatile market conditions". Members need to consider whether to amend the allocation or maintain this statement.
- b) In addition, the fund is also consciously holding a significant amount of cash as a more stable investment. With this in mind the strategy needs to be reviewed to reflect this change. It is proposed that the Investment Strategy will include a sentence to reflect the flexibility of holding cash on a short term basis.

### 5. Fund Manager Reports

### 5.1. UK Equities (Standard Life)

- a) Representatives from Standard Life are to make a presentation at this Committee, therefore a brief overview of the quarter 4 performance follows:
- b) The value of the fund as at 31 December 2008 decreased by 16% since 30 September 2008.
- c) Standard Life underperformed the benchmark in the quarter by -6.4% (net of fess) and underperformed the target in the quarter by -6.9% (net of fees). Since inception they have underperformed the benchmark by -3.1% (net of fees) and underperformed the target by -5.0% (net of fees).

### 5.2. Global Equities (Alliance Bernstein)

- a) In accordance with agreed procedures officers met with representatives from Alliance Bernstein at a special committee meeting on the 10 February 2009 at which a review of the guarter 3 performance was discussed.
- b) Issues discussed at the Special meeting can be found in the exempt minutes.
- c) The Market Value of their portfolio has decreased by 9.5% since September 08.
- d) In Quarter 4 they underperformed the benchmark by -5.9% (net of fees) and underperformed the target by -6.5 % (net of fees). Since inception they are 3.7% below benchmark (net of fees) and -6.0% below the target (net of fees).
- e) The redemption monies from the sale of the Western mandate are being given to Alliance Bernstein in stages. Currently all but £7.5m has been transferred. Members have considered whether to pass on this remaining balance and have decided that given the current market conditions to hold the cash on deposit for the foreseeable future.

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

- a) Representatives from Royal London are to make a presentation at this Committee, therefore a brief overview of the quarter 4 performance follows.
- b) The market value of their portfolio has increased by 2.6% since September 08.
- c) They underperformed against the benchmark by -0.6% (net of fees) and -0.8% (net of fees) against the target. Since inception they are -0.8% (net of fees) below the benchmark.
- d) The chair on behalf of the committee agreed to Royal London's proposal to have flexibility on holding onto bonds below investment grade BBB-. They will not be permitted to purchase bonds below BBB- only to be provided with some flexibility as to when to sell bonds if they are downgraded. As part of this mandate change Royal London have agreed to keep officers/committee members fully updated of the bonds that fall in this category.

### 5.4. Global High Yield Bonds (Westerns)

a) The Westerns mandate was terminated on the 1 August 2008.

# 5.5. Property (UBS)

- a) The value of the UBS Triton Property Fund as at 31 December has seen a decrease of 14 % since September 08.
- b) UBS underperformed the benchmark in the quarter by -1.7% and underperformed the benchmark by -4% over the last 12 months.
- c) During the quarter they sold three properties. Part of the proceeds for these sales will be used to meet redemptions.
- d) UBS directly holds 828 separate tenancies, however like other balanced funds they have exposure to tenants who are in financial difficulties. The fund had an exposure to Woolworths, MFI and more recently minimal exposure to Zavvi and Land of Leather. They have found tenants for some sites previously occupied by Woolworths and there is active interest in other locations. They are seeking new tenants for the MFI properties. Similar situations in the past have led to opportunities to add value and can provide opportunities to acquire units and reconfigure the space according to market and tenant demand.

# **6. Corporate Governance Issues**

The Committee, previously, agreed that it would:

- 1. Receive quarterly information from each relevant Investment Manager, detailing the voting history of the Investment Managers on contentious issues. This information is included in the Managers' Quarterly Reports, which is available for scrutiny in the Members Lounge.
- 2. Consider a sample of all votes cast to ensure they are in accordance with the policy and determine any Corporate Governance issues arising.
- 3. Receive quarterly information from the Investment Managers, detailing new Investments made.
  - Points 1 and 3 are contained in the Managers' reports.
  - With regard to point 2, Members should select a sample of the votes cast from the voting list supplied by the managers placed in the Member's room which is included within the quarterly report and question the Fund Managers regarding how Corporate Governance issues were considered in arriving at these decisions.

#### This report is being presented in order that:

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

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

# Standard Life and Royal London

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

# **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 and Social Inclusion Implications and risks:**

None arising directly

Staff Contact: Debbie Ford

Designation: Pension Fund Accountant

Telephone No: 01708 432569

E-mail address: debbie.ford@havering.gov.uk

CHERYL COPPELL
Chief Executive

#### **Background Papers List**

Standard Life Quarterly report to 31<sup>st</sup> December 2008
Alliance Bernstein Quarterly report to 31<sup>st</sup> December 2008
Royal London Quarterly report to 31<sup>st</sup> December 2008
Western Asset Quarterly report to 31<sup>st</sup> December 2008
UBS Quarterly report to 31<sup>st</sup> December 2008
The WM Company Performance Review Report to 31<sup>st</sup> December 2008
Hyman's Monitoring Report to 31<sup>st</sup> December 2008

Pensions Committee 17 March 2009



MEETING DATE ITEM

PENSIONS COMMITTEE

17 MARCH 2009

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# REPORT OF THE CHIEF EXECUTIVE

SUBJECT: ANNUAL REPORT OF THE COMMITTEE 2008/09 AND ANNUAL PLAN AND TRAINING PROGRAMME 2009/10

# SUMMARY

This report sets out the work undertaken by the Committee in the last year and the plan of work for the following year along with an assessment of the training requirements for Members of the Committee.

#### RECOMMENDATION

- 1. Members agree the Annual Report of the Committee.
- 2. Members agree the Annual Report of the Committee be reported to full Council in July.
- 3. Members note the proposed work plan for the forthcoming year.
- 4. Members add any areas/topics that they want covered having regard to the information/reports elsewhere on the agenda.
- 5. Members consider and agree the training proposals, identifying and incorporating any other needs.

#### REPORT DETAIL

- 1. The Pensions Committee has, in recent years, prepared an Annual Report. This has covered both Committee activity and the general performance of the Fund. The latter is now a legal requirement and will be prepared as part of the annual Accounts process. It is; however, appropriate to continue to prepare a separate report on the activity of the Committee and for this to be reported to Council on an annual basis.
- 2. In line with this, a report is attached as Appendix A. Information on the Fund performance will be advised to all members when it becomes available.
- 3. It is important that all the Members of the Committee are adequately trained and briefed to 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
- 4. The Pensions Committee is planning to meet five times over the next municipal year for normal activity (See Appendix B). In addition a review of the Investment Strategy being finalised. Given this and the current economic climate, other Committees will take place during the day/early evening as necessary.
  - It had been hoped that in order for Members to obtain a knowledge of how the managers work on the ground, that one of the Officer Monitoring sessions per Manager takes place at the offices of the Manager and that Members have the opportunity to attend. Unfortunately, this has not been possible.
- 5. Having regard to the work plan, formal training sessions were held in respect of:
  - (a) the implications of changes in service delivery and options for the Pension Fund via the Actuary;
  - (b) other relevant topics, having regard to the review of the Investment Strategy and the related key decisions, including the Statement of Investment Principles.

Specific and detailed training was undertaken during 2008 and this is summarised in Annex B of the attached report.

6. Members are also requested to review the attached self assessment (Appendix C) and identify any other training needs to the Pension Fund Accountant.

# **Financial Implications and Risks:**

- 1. None arising directly.
- 2. Training costs are met from the Pension Fund directly or via the Advisor Fee.
- 3. The Advisor Fee includes provision for two sessions and one of the sessions re: service delivery will be delivered via the actuary.
- 4. There is a considerable risk of poor decision making if Members of Committee are not trained in investment matters.

# **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 Resource Implications and Risks:**

None arising directly.

Staff Contact: Rita Greenwood Title: Group Director

Finance & Commerce

**Telephone:** 01708 432218

CHERYL COPPELL
Chief Executive

# **Background Papers**



# **HAVERING PENSION FUND**

# REPORT ON THE WORK OF THE PENSIONS COMMITTEE

**MARCH 2009** 

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

> Tel: 01708 432217 Fax: 01708 432162

#### **INTRODUCTION**

The Havering Pension 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 an Annual Report to all Council Members on the Havering Pension Fund and the work of the Pensions Committee.

This report covers the period 1<sup>st</sup> April 2008 to 31<sup>st</sup> March 2009 and outlines:

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

The financial position of the Havering Pension Fund and the performance of the Pension fund investments feature as part of the formal report of the Fund itself, which is prepared later in the year.

## **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 called the Havering Pension Fund.

The latest audited value of the Fund as at 31<sup>st</sup> March 2008 was £349m. This was invested in equities in listed companies both in the UK and overseas, fixed interest securities, property funds and cash.

The Council sets the overall investment strategy of the Fund and monitors performance of five different managers (who have specific mandates) against an agreed performance in relation to an agreed benchmark. The Council had delegated this responsibility to the Pensions Committee.

#### THE MANAGEMENT STRUCTURE

Pensions Committee during 2008/09

Cllr Melvin Wallace (Chairman)

Cllr Roger Ramsey (Vice Chairman)

Cllr Robert Benham

Cllr Robby Misir

**Cllr Clarence Barrett** 

Cllr Linda van den Hende

Cllr Jeffrey Tucker (commenced August 2008)

Non voting Union Members:

Brian Long (Unison)

Sean Ramsden (UNITE)

Non voting Admitted / Scheduled Body Member:

David Holmes – Havering College of Further and Higher Education (commenced September 2008)

Fund Actuary Hewitt Bacon & Woodrow

Auditors Audit Commission changing to PWC

Custodians State Street Global Assets

Investment Managers Standard Life Investments (UK Equities)

Royal London Asset Management (Investment Bonds)

Western/Citigroup (Global High Yield Bonds) – Redeemed August

2008

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)

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Performance Measurement WM Company

The terms of reference for the Committee are:

- To consider and agree the investment strategy and statement of investment principles for the pension fund
- To authorise the invitation of tenders and the award of contracts for actuaries, advisers and fund managers or other related investment matters (where not covered by existing delegation arrangements)
- 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 DATES**

The Committee met a number of times and Annex A sets out the coverage. In addition, the Committee held a cycle of meetings to review the investment strategy.

#### TRAINING AND DEVELOPMENT

Training and development took place over the year to ensure that Members of the Committee were fully briefed in the decisions they were taking as shown in the database in Annex B, in summary this covered:

- Three training sessions combined with Special Pension Committee meetings for the 2008 Investment Strategy Review.
- Three day Trustee Training course for Councillor Benham.
- Alternative Investments and their associated asset classes.
- Alternative assets and options for pooled/segregated management.

A training and Development Plan is in place for 2009/10 which is linked to the Pension Fund coverage for 2009/10.

#### **KEY ISSUES ARISING IN THE PERIOD**

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.

Review of Statement of Investment Principles and Funding Strategy Statement

The process of a fundamental review was completed.

• Annual Report for Members of the Fund

This was reviewed and approved for distribution.

- Reviewed performance of Advisers, Custodians and Actuary
- Considered performance of Pensions Administration Service
- Considered Alternative Investments

# ANNEX A

MARCH 2008	•	Overall Monitoring Report on Pension Fund to end of December 07:					
		a) UK Equities Manager					
		b) UK Bonds Manager					
	•	Annual Training Plan and Work Plan Review inc work of Committee					
MAY 2008 (SPECIAL)	•	Phase 1- Investment Strategy Review					
JUNE 2008 (SPECIAL)	•	Phase 2 - Investment Strategy Review					
JULY 2008 (SPECIAL)	-	Phase 3 - Investment Strategy Review					
JULY 2008	-	Overall Monitoring Report on Pension Fund to March 08:					
		a) Global Equities Manager					
		b) Global Higher Yielding Bonds Manager					
SEPTEMBER 2008	-	Overall Monitoring Report on Pension Fund to end of June 08:					
		a) UK Equities Manager					
		b) UK Bonds Manager					
	-	Pension Fund Accounts inc annual report requirements					
	-	Preparation for review of the Statement of investment Principles and					
		the Funding strategy Statement					
	•	Pensions Panel Restructure					
NOVEMBER 2008	•	Annual review of Custodian					
	•	Annual review of Adviser					
	-	Annual review of Actuary					
	•	Review of Communications/ Governance Policies					
	•	Review of the Statement of investment Principles and the Funding					
		strategy Statement					
	•	Report to Pensioners /contributors of the Pension Fund 2007-08 (Pension Fund Leaflet)					
		Annual Report on activity of Pensions Admin					
		Whistleblowing Annual Assessment					
		Preparations for Pension Fund Annual Report					
	-	The Administration of Simply Better Services to Pension Fund					
		Flexible Retirements and Discretions					
		General report on Panel Activity; IDRP policy; discretions – 100 weeks					
		only – 100 weeks done verbally					
DECEMBER 2008	•	Overall Monitoring Report on Pension Fund to end of September 08					
		inc.					
		a) Global Equities Manager					
		b) Property Manager					
	•	Custodian monitoring and value for money					
FEBRUARY 2009 (SPECIAL)	-	Review of Global Equities Manager					
	•	Pension Fund investment overview					
MARCH 2009	•	Overall Monitoring Report on Pension Fund to end of December 08:					
		a) UK Equities Manager					
		b) UK Bonds Manager					
	•	Annual Training Plan and Work Plan Review inc work of Committee					

# PENSIONS COMMITTEE MEMBER TRAINING 2008/09

DATE	TOPIC COVERED	LOCATION	ATTENDED BY
22 April 2008	Pensions Overview – Informal one to one training for Councillor Benham by Debbie ford	Town Hall	Cllr Benham
24 April 2008	<ul> <li>Local Authority Investment Seminar provided by Standard Life (1/2 day)</li> </ul>	The Dorchester Hotel	Cllr Ramsey
13 May 2008	Training/Special Pensions committee meeting by Investment Advisors (Hymans):  • Phase 1 Investment Strategy Review	Town Hall	Cllr Wallace Cllr Benham Cllr Kelly (sub for Cllr Ramsey) Cllr Van den Hende Cllr Barrett
9 June 2008	Training/Special Pensions committee meeting by Investment Advisors (Hymans):  • Phase 2 Investment Strategy Review	Town Hall	Cllr Ramsey Cllr Benham Cllr Misir Cllr Galpin (sub for Cllr Wallace) Cllr Van den Hende
17 July 2008	Training/Special Pensions committee meeting by Investment Advisors (Hymans):  • Phase 3 Investment Strategy Review	Town Hall	Cllr Wallace Cllr Ramsey Cllr Barrett
25 September 2008	Investment Advisor (Hymans) doing training:  • Alternative Asset Classes	Prior to Committee at the Town Hall	Cllr Wallace Cllr Ramsey Cllr Van den Hende Cllr Misir Cllr Benham

13 October 08 (Day 1)	Local Government Employers doing Trustee Training:	London	Cllr Benham
13 November 08 (Day 2)	• Day 1		
9 December 08 (Day 3)	<ul> <li>LGPS framework (past &amp; present)</li> </ul>		
	<ul> <li>Investment Framework</li> </ul>		
	<ul> <li>Traditional Asset Classes</li> </ul>		
	• Day 2		
	<ul> <li>Valuations</li> </ul>		
	<ul> <li>Funding Strategy Statements</li> </ul>		
	Corporate Governance		
	<ul> <li>Communication Strategies/Polices</li> </ul>		
	<ul> <li>Established Alternative Investments</li> </ul>		
	• Day 3		
	<ul> <li>Duties and Responsibilities of Committee members</li> </ul>		
	The future for LGPS		
	Managers and Manger selection		
10.5	Bringing it all together	District Occupition at the	Oll - D
18 December 2008	Schroeder's doing Training:	Prior to Committee at the	Cllr Ramsey
	Investing in alternative Assets and options for pooled/segregated	Town Hall	Cllr Benham
	management		Cllr Van den Hende
			Cllr Tucker
			Cllr Thompson (sub for
			Cllr Wallace)
			David Holmes (employer
			representative)
			Brian Long (Unison)
			John Giles (Unison)

# PENSION FUND INVESTMENT MANAGERS MEETINGS AND COVERAGE 2009/10

	MARCH 2009	JULY 2009	SEPTEMBER 2009	NOVEMBER 2009	DECEMBER 2009	MARCH 2010
Formal Committees with Members	External audit introduction (PWC)     Overall Monitoring Report on Pension Fund to end of December 08:     a) UK Equities Manager (Standard Life)     b) UK Bonds Manager (Royal London)      Annual Training Plan and Work Plan Review inc work of Committee	Overall Monitoring Report on Pension Fund to March 09 inc.    a) Global Equities Manager (Alliance Bernstein)	Overall Monitoring Report on Pension Fund to end of June 09:    a) UK Equities    Manager (Standard Life)    b) UK Bonds Manager (Royal London)    Pension Fund Accounts	<ul> <li>Annual review of Custodian</li> <li>Annual review of Adviser</li> <li>Annual review of Actuary</li> <li>Pension Fund leaflet</li> <li>Review of Communications/ Governance Policies</li> <li>Whistleblowing Annual Assessment</li> <li>Administration Strategy (regs change) if necessary</li> <li>Stakeholder/ Regs review on pensions as required</li> <li>Review of Statement of investment principles &amp; funding strategy statement</li> <li>Discretions</li> <li>Pension Fund Annual Report</li> <li>Annual Report on activity of Pensions Admin</li> <li>General report on Panel Activity; IDRP policy; discretions – 100 weeks only – 100 weeks done verbally</li> </ul>	Overall Monitoring Report on Pension Fund to end of September 09 inc.    a) Global Equities Manager (Alliance Bernstein)    b) Property (UBS)	Overall Monitoring Report on Pension Fund to end of December 09:    a) UK Equities    Manager (Standard Life)    b) UK Bonds Manager    (Royal London)
Officer Meetings	Global Equities  Meeting: Special Pensions Meeting 10 Feb09	<ul> <li>Advisor Review</li> <li>Custodian Review</li> <li>UK equities (Standard Life)</li> <li>UK Bonds (Royal London)</li> <li>Property</li> </ul>	<ul> <li>Global Equities         Manager (Alliance         Bernstein)</li> <li>Property (UBS)</li> <li>WM presentation</li> </ul>	No meeting	<ul> <li>UK Equities (Standard Life)</li> <li>UK Bonds Manager (Royal London)</li> </ul>	Global Equities     (Alliance Bernstein)
Training	Associated Training	<ul> <li>Associated Training</li> </ul>	<ul> <li>Associated Training</li> </ul>	<ul> <li>Associated training</li> </ul>	<ul> <li>Associated Training</li> </ul>	<ul> <li>Associated training</li> </ul>

# **SELF ASSESSMENT**

# **PENSIONS COMMITTEE**

I believe I am competent to agree the Investment Strategy of the Pension Fund	Yes / No
I believe I am competent to agree the Statement of Investment Principles	Yes / No
I understand my role in monitoring the Pension Fund performance	Yes / No
I feel capable in monitoring the Managers	Yes / No
I understand the balance of risk versus return	Yes / No
I understand the impact of different matters on the Fund	Yes / No
I understand the challenges being fixed by the LGPS	Yes / No
I understand my role	Yes / No

Date	 	 	
Councillor	 	 	
Signed	 	 	



# PENSIONS COMMITTEE (SPECIAL MEETING) ADDITIONAL PAPERS

7.30pm Tuesday, Havering Town Hall, Main Road, Romford

# Item 8a

FLEXIBLE RETIREMENT AND OTHER DISCRETIONS WITHIN THE LOCAL GOVERNMENT PENSION SCHEME (LGPS)

Report documentation attached

For information about the meeting please contact: James Goodwin (01708) 432432

E-mail: james.goodwin@havering.gov.uk



MEETING DATE ITEM

# PENSIONS COMMITTEE

17 March 2009

8a

This report is submitted with the agreement of the Chairman as an urgent matter, pursuant to Section 100B(4) of the Local Government Act 1972

# REPORT OF THE CHIEF EXECUTIVE

SUBJECT: Flexible Retirement and other Discretions within the Local Government Pension Scheme (LGPS)

SUMMARY

The Committee at its meeting on 4 November considered the new provision of flexible retirement, permitting employees who are over the age of 50 and who have changed their grade or hours of work the right to apply to receive immediate payment of their pension benefits whilst still working, subject to employers' approval and certain other criteria. In the past, employees were not permitted to draw their pension benefits whilst continuing in employment. In relation to flexible retirement, the detailed costs are also difficult to predict as this is a new provision in the regulations.

At the same meeting on 4 November the Committee also considered the abatement policy as this would be effected by the Flexible Retirement Policy.

#### The Committee agreed to:

- (a) Confirm the discretion of flexible retirement on an actuarially reduced basis only, unless the regulations prevent reduction.
- (b) Explore the benefits of any waiving as part of the Human Resources Strategy, with a report back to both this Committee and Cabinet.
- (c) Abate pensions on re-employment (i.e. the annual rate of the pension is reduced by the amount, if any, which is necessary to ensure that the total of the annual remuneration of the new employment plus the annual rate of the pension does not exceed

the annual remuneration of the old employment in real terms), pending a review as part of the Human Resources Strategy.

This report sets out the results of the exploration and seeks approval to the policy for flexible retirement.

Once agreed, a new policy statement will be produced and published to members of the pension scheme and will come into effect one month after the Pension Committee decision.

## RECOMMENDATION

That Members agree that the discretion of flexible retirement be exercised on an actuarially reduced basis unless:

- a.) the regulations prevent reduction.
- b.) or there is an exceptional case.

That Members agree these exceptions be agreed by the Pensions Committee having taken the advice of the Group Director Finance and Commerce.

That Members decide if a change to the abatement policy is required.

That Members agree the policy statement revised to reflect the recommendations as set out in the attached subject to any change being required for the abatement policy.

# REPORT DETAIL

1. The Local Government Pension Scheme ("LGPS") Regulations and other related legislation contain a number of discretionary areas ("discretions") which provide for flexibility in how the rules of the scheme may be used and benefits that can be awarded to employees. The Council is required by the legislation to publish policy statements indicating how some of these discretions will be exercised.

A previous Committee reviewed existing discretions and considered new ones. Further work was agreed on two of these and this report sets out the recommendations of Officers having regard to the Human Resource Strategy.

If the recommendations of this report are agreed Cabinet approval is not required.

# Flexible Retirement – Regulation 35

2. One of the new discretions was the introduction of flexible retirement benefits. Part of the approach to affordable pension provision is to

allow people to save more by relaxing some of the tax rules around contribution rates and subsequent benefits and to encourage employees to keep working beyond the age where they might previously have contemplated early retirement to retain skills in the public sector. Employees can now remain contributors to the Council's pension scheme up to the day before their 75<sup>th</sup> birthday. In addition, there are new provisions allowing pensions scheme members to receive payment of their pensions with their employers consent whilst continuing to work in a reduced or part-time capacity.

3. In the past, employees were not permitted to draw their pension benefits whilst continuing in employment.

Under these new arrangements, an employee who reduces their hours or grade either by their request or action by the employer, who is over 50 and under 65 may take their pension benefits with employer consent and remain in employment.

In these circumstances the pension benefits (annual pension and lump sum retirement grant) are subject to reduction due to early payment, unless staff have protected rights or the employer chooses to "waive the reduction" and pay unreduced benefits.

- 4. Waiving the actuarial reduction could be a substantial cost to the employer which must be paid into the fund immediately. Therefore, very few authorities appear to be considering waiving any reduction in benefits. This was discussed at the meeting which previously considered this and led to Members agreeing to:
  - Confirm the discretion of flexible retirement on an actuarially reduced basis only, unless the regulations prevent reduction.
  - Explore the benefits of any waiving as part of the Human Resources Strategy, with a report back to both this Committee and Cabinet.
  - Continue to abate pensions on re-employment (i.e. the annual rate
    of the pension is reduced by the amount, if any, which is necessary
    to ensure that the total of the annual remuneration of the new
    employment plus the annual rate of the pension does not exceed
    the annual remuneration of the old employment in real terms),
    pending a review as part of the Human Resources Strategy.

- 5. There are a number of advantages for employers in allowing flexible retirement:
  - Allowing older employees to reduce their hours or grade and continue working may improve the health, motivation and productivity of the workforce.
  - It will underpin the Council's commitment to avoiding age discrimination and mitigate recruitment difficulties which may be associated with an ageing population.
  - It also allows for a more pro-active approach to succession planning.
- 6. As a new area of discretion it is difficult to say what extent the facility might be taken up and therefore, what costs might be incurred as a result to the Fund if waiver was possible or to employee costs of covering loss of partial skills/capacity. At this early stage it is important that each case takes into account the financial cost of the Pension fund and Council budgets and human resources costs associated with recruiting and training a replacement for the additional hours for the post.
- 7. Officers have now reviewed these factors and it is recommended that the Policy be that no waiving of actuarial reduction should take place unless an extremely exceptional case and this be agreed by the Committee itself on the recommendation of the Group Director Finance and Commerce having regard to individual merits of the case, the robustness of the written business reasons, the benefit to the Council and the level of cost involved. Cases where there is no cost or where there are regulations that have to be followed which prevent a reduction, will continue to be agreed by the Pensions Panel.

## Abatement – Regulation 109

- 8. Due to the above, it is appropriate for the Council to reconsider its abatement policy. 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 (regardless of which employer within the Fund they join) the Council can decide to reduce or suspend that person's pension (commonly referred to as "abatement"). This option only applies in respect of reemployment in local government, it cannot apply for any other employment regardless of the level of remuneration being received in subsequent non local government employment.
- 9. The current policy of the Council is to abate pensions on reemployment (i.e. the annual rate of the pension is reduced by the amount, if any, which is necessary to ensure that the total of the annual remuneration of the new employment plus the annual rate of the pension does not exceed the annual remuneration of the old employment, in real terms).

- 10. While abatement may have been seen as a useful tool in the past to ensure the benefits of the Local Government Pension Scheme are not abused (for example, in cases where an employee is re-employed by the same local authority in a very similar post shortly after receiving early retirement), it could be argued that such abuse has always been in the control of employers and decisions to retire an employee should not have been taken where this type of 're-deployment' was a possibility.
- 11. It should also be noted however that with the introduction of flexible retirement provisions, it is now possible to legitimately allow an employee to reduce their hours or responsibilities and remain working while drawing their accrued pension benefits. In these cases the LGPS regulations specifically state that abatement should not apply.
- 12. Members views are requested re the current policy and if a change should apply.

# **Policy Statement**

13. The Policy Document and Statement amended to reflect the above is attached for agreement.

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. The revised policy and statement is attached.

## Financial Implications and risks:

The introduction of the Flexible Retirement Policy could incur some additional costs which are unknown if waiver is agreed of exceptional cases. It will need to be funded from service budgets if a justified business case can be made.

# **Legal Implications and risks:**

The Legal implications are contained within the body of the report.

#### **Human Resources Implications and risks:**

The flexible retirement policy will assist services by helping to address;

- Succession planning
- An ageing workforce
- Skills shortage areas in key occupation groups
- Key posts that are likely to continue to be hard to fill

# **Equalities and Social Inclusion Implications and risks**

The flexible retirement policy enables older staff to remain in employment longer than they might otherwise be able to.

> Staff Contact: Jeff Potter

Designation:
Telephone No:
F-mail address Head of Exchequer Services

01708 434139

jeff.potter@havering.gov.uk E-mail address

> **CHERYL COPPELL Chief Executive**

# **Background Papers List**

The Local Government Pension Scheme Regulations (as amended)



# The Local Government Pension Scheme Regulations (as amended)

# Statement of Policy (February 2009)

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 50 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 50

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.



# LOCAL GOVERNMENT PENSION SCHEME DISCRETIONS POLICY (Updated Feb 2009)

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 50 and 60

Consent to the early payment of deferred pension benefits on compassionate grounds on or after the age of 50 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 50). 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 50 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 50 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 policy, as determined at Pensions Committee in 2006, is 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.