

PENSIONS COMMITTEE

AGENDA

7.30pm

Tuesday,
19 December 2006

Havering Town Hall,
Main Road, Romford

Members 6: Quorum 3

COUNCILLORS:

Conservative Group

(4)

Melvin Wallace - (Chairman)

Roger Ramsey - (V.Chairman)

David Charles

Robby Misir

Residents' Group

(2)

Clarence Barrett

Linda van den

Hende

Trade Union observers with no Voting Rights

(2)

Brian Long (Unison)

Michael Parker (TGWU)

For information about the meeting please contact:

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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 HELD 21 SEPTEMBER AND 5 DECEMBER 2006

To approve as a correct record the minutes of the meetings held on 21 September and 5 December 2006 and to authorise the Chairman to sign them.

5. PENSION FUND PERFORMANCE MONITORING –QUARTER ENDING 30 SEPTEMBER 2006 –Report attached**6. ANNUAL REVIEW OF THE STATEMENT OF INVESTMENT PRINCIPLES AND THE FUNDING STRATEGY –Report attached****7. 2005 – 2006 ANNUAL REPORT FOR THE MEMBERS OF THE PENSION FUND – Report attached****8. NOTICE OF ANNUAL REVIEW OF THE PENSION FUND'S COMUNICATION AND GOVERNANCE POLICIES –Report attached****9. THE ADMISSION OF KGB CLEANERS TO HAVERING'S PENSIONS FUND –Report attached****10. EARLY TERMINATION OF EMPLOYMENT –Report attached****11. REVIEW OF THE ACTUARY –Report attached****12. APPOINTMENT OF THE INVESTMENT ADVISOR TO THE PENSION FUND – Report attached****13. REVIEW OF INVESTMENT ADVISOR –Report attached**

14. EXCLUSION OF THE PRESS AND 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 paragraphs 8 and 9 of Schedule 12A to the Local Government Act 1972 which it is not in the public interest to publish; and, if it is decided to exclude the public on those grounds, the Committee to resolve accordingly on the motion of the Chairman.

15. APPOINTMENT OF INVESTMENT ADVISOR TO THE PENSION FUND

Stephen Evans
Chief Executive

15M

**MINUTES OF THE PENSIONS COMMITTEE SPECIAL MEETING
Havering Town Hall, Romford
5 December 2006 (6pm – 9.15pm)**

Present:

COUNCILLORS:

Conservative Group Melvin Wallace (in the Chair), David Charles
Robby Misir and Roger Ramsey.

Residents Group Clarence Barrett

Apologies for absence were received from Cllr Linda van den Hende.

Also in attendance was Brian Long, Unison.

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

No Member declared an interest in any of the items before the Committee.

18. PRESENTATIONS BY TENDERERS FOR THE APPOINTMENT OF INVESTMENT ADVISOR

The Committee received a report outlining the process for the selection of an Investment Advisor to the Pension Fund and considered presentations from three tenderers.

Prior to the presentations, the Group Director advised that each of the presentations would take approximately thirty minutes. Fifteen minutes would then be allowed for questions of the presenters and a further fifteen minutes for discussion and scoring.

Officers had already scored each of the tenders and a detailed breakdown of the scores and been circulated to the Committee. Following each presentation it was intended that the Committee should discuss and confirm, or amend, the score given.

In terms of the questioning, it was intended that each Member would lead in a particular area and a selection from the same set of questions would be asked of each team, as detailed below:

- i) What research facilities do you have for benchmarks?

- ii) How do you determine the out-performance level?
- iii) What issues would you expect to advise the Committee on when considering regular performance monitoring reports from fund managers?
- iv) How would you select a fund manager?
- v) What improvements in performance do you think you can bring to a Local Government Pension Scheme (LGPS) client?
- vi) What are the key issues that you think this Committee should be addressing in the next three to five years?
- vii) What experience have you in providing training for pension fund trustees?
- viii) How would you determine the style of report for presentation to the Pensions Committee?

Following each presentation, Members asked the questions previously agreed, considered the scores given by officers and assessed the presentations against the same criteria.

Hymans Robertson

In general Members were in agreement that the scores given by officers were appropriate. The score in relation to the quality of management information was lowered slightly from 8.5% to 7%. However, it was noted that the way the information was presented could be altered to suit the individual requirements of the Council.

The overall score for quality given by the Committee was 79.75%.

Mercer

The Committee agreed that the scores given in relation to the first three criteria were appropriate. However, the score in relation to ability to communicate effectively was lowered by 1.75% to 9% and the score in relation to the quality of management information was raised from 4.25% to 8%.

The overall score for quality given by the Committee was 77%.

PSolve

Members discussed the presentation and were in agreement that the scores given in relation to expertise and skills, and ability to communicate effectively were appropriate. The scores given in relation to the other criteria were raised slightly by the Committee.

The overall score for quality given by the Committee was 71.25%.

The Group Director Finance and Commercial advised that a report would be compiled and presented to the Committee at its next meeting

with regard to the official appointment of Hymans Robertson as the Council's Investment Advisor.

The formal appointment of Hymans Robertson would take place on 19 December at the Committee's next meeting.

It was resolved:

- i) To note that the existing contract for investment advice ended on 31 March 2007.
- ii) To note that the new contract would be formally awarded on 19 December

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

21 September 2006 (7.30pm – 10.00pm)

Present:

COUNCILLORS:

Conservative Group Melvin Wallace (in the Chair), Mark Gadd,
Steven Kelly and Roger Ramsey

Apologies for absence were received from Cllrs Clarence Barret and Linda van den Hende

+Substitute Members: Councillor Steven Kelly (for David Charles)

Also in attendance was Brian Long, Unison and Michael Parker, TGWU

On behalf of the Chairman everyone present was advised of action to be taken in the event of emergency evacuation of the Town Hall becoming necessary.

9. DECLARATION OF INTERESTS

Councillor Melvin Wallace declared a personal interest because his wife had a deferred pension with LB Havering. He remained in the room and participated in all matters under consideration.

10. MINUTES

The minutes of the meetings held 3 July and 22 August 2006 were approved as correct records and signed by the Chairman.

11. ANNUAL PRESENTATION FROM WM

Val Burdett-Callen and Femi Bart-Williams from Psolve were in attendance.

Lynn Coventry from WM presented to the Committee giving the Investment Performance Summary.

11M

It was reported that as at 30 June 2006, the value of the Fund was £332.0m.

Over the 12 months to end of June 2006 the Fund outperformed the strategic benchmark – FTSE A Gilts over 15 years plus 3%, by 9.7%.

The Fund return of 13.9% over the year ending June 2006 was 2.2% above the combination of the Fund Managers benchmark (Tactical benchmark). It was noted that this was due mainly to Standard Life and Alliance Bernstein's performance.

Over the fiscal year the Fund return was 0.8% below the WM Local Authority Average return, ranking in the 78th percentile. This it was felt was due to the Fund's higher than average weighting in Bonds at the expense of Equities.

In concluding her presentation, Ms Coventry stated that the Havering Fund of 13.9% compared against the benchmark of 11.4%, gave the Fund a good year compared to the benchmark.

Members **received** and **noted** the presentation.

12. PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 30 JUNE 2006

A report giving the Committee an overview of the performance of the Havering Pension Fund investments for the period ending 30 June 2006 was presented to the Committee.

It was noted that each Manager had been set a specific benchmark as well as an out-performance target against which their performance was measured.

The net return on the Fund's investment for the quarter to 30 June 2006 was -2.7%. The tactical benchmark returned -2.3% over the same period, this represented an under performance of -0.4%.

It was confirmed that the total combined fund value as at 30 June 2006 was £332.0m.

The Committee received presentations from the UK Equities Manager (Standard Life) and the UK Bonds Manager (Royal London, RLAM)

Standard Life

12M

Helen Driver, the Alternate Portfolio Manager for the Havering Pension Fund and Dale MacLennan, the Client Fund Manager presented to the Committee.

It was reported that Standard Life achieved a net return for the quarter ending 30 June 2006 of -1.3%. They had outperformed the benchmark by .5%. It was noted that this performance equalled the target set for the quarter. Over the year they outperformed the target by 2.4%.

Standard Life representatives confirmed that there were no whistle blowing or governance issues to report in the quarter.

The Chairman thanked them for attending and they left.

Royal London Asset Management (RLAM)

Paul Rayner, Fixed Interest Fund Manager and Victoria Muir, Client Relationship Director presented to the Committee.

It was reported that RLAM achieved a net return of -1.7%, this represented an out-performance of 0.10% against the agreed benchmark. The quarterly performance against the target was under achieved by -0.9%. This in effect meant that RLAM under achieved its annual target by 35 basis points.

RLAM representatives stated that there were no whistle blowing or governance issues to report in the quarter. The Chairman thanked them for attending and they left.

The Committee considered points arising from the officer monitoring meetings as contained in the reports and noted in particular the situation with Westerns and their underperformance. In response to a question, Officers suggested to Members that Westerns be given another two quarters before making a judgment on the next course of action.

Members further considered having an Annual General Meeting for representatives of Admitted and Scheduled bodies. Following discussion, Members decided that it was not the appropriate time, bearing in mind that Officers had commented during the course of the meeting that some of the aforementioned representatives had not responded to them when they had contacted them.

Members **received** and **considered** all presentations and reports and **noted** the summary of the performance of the Pension Fund.

13. REVIEW OF THE STATEMENT OF INVESTMENT PRINCIPLES AND THE FUNDING STRATEGY STATEMENT

A report setting out the Statement of Investment Principles and the Funding Strategy Statement. The report also explained why a review was required and how it would be undertaken.

Officers confirmed that they would report back to the Committee the results of the review.

Members **noted** the Statement of Investment Principles and Funding Strategy Statements.

14. GOVERNMENT CONSULTATIONS ON PROPOSED CHANGES TO THE LOCAL GOVERNMENT PENSIONS SCHEME (LGPS)

A report detailing three consultation papers issued by the Department for Communities and Local Government (DCLG) on proposed changes to the LGPS was presented to the Committee. The draft response to the consultation was also presented for Member approval.

Regarding the options for a New Look Local Government Pension Scheme, Members requested that the phrase;

“subject to suitable safeguards”

be inserted as an amendment to the response being sent back to DCLG regarding who was defined under the heading of co-habitees.

Officers informed the Committee that following consultation with the Chairman, the Council did not intend to respond to the Government consultation relating to Admitted Body status.

The Governance response remained un-contentious and was agreed as presented.

15. REVIEW OF THE PENSION FUND CUSTODIAN

14M

A report reviewing the annual performance of the Custodian, State Street for the period April 2005 to March 2006 was presented to the Committee.

It was noted that this was the first formal assessment of the custodial service by the Committee. Officers confirmed that they were pleased with the overall performance of State Street, and that the Service would continue to be monitored.

Members **noted** the report.

- 16.** At the end of the meeting the Chairman thanked Victor Wilson the interim Pensions Accountant for his support and hard work over the last year as this was his last meeting.



MEETING	DATE	ITEM
PENSIONS COMMITTEE	19 December 2006	5

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 30 SEPTEMBER 2006

SUMMARY

This report provides the Committee with an overview of the performance of the Havering Pension Fund investments for the quarterly period to 30 September 2006. The performance information is taken from the Quarterly Performance Report supplied by each Investment Manager, the WM Company Quarterly Performance Review Report and the Psolve Monitoring Report.

The net return on the Fund's investments for the **quarter** to 30 September 2006 was 3.9%, this matched the combined tactical benchmark of 3.9% over the same period and underperformed against the strategic benchmark by - 1.6%

The overall net return of the Fund's investments for the **year** to 30 September 2006 was 11.0 %. This compares to the annual tactical combined benchmark of 10.3% an out performance of 0.7% and outperformed the annual strategic benchmark of 8.5% by 2.3%.

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

RECOMMENDATION

1. That the Committee considers the Psolve performance monitoring report and presentation.
2. That the Committee receives presentations from the funds Global Equities Manager (Alliance Bernstein), Property Manager (UBS) and Global High Yield Bond Manager (Westerns).
3. That the Committee notes the summary of the performance of the Pension Fund within this report
4. That the Committee considers the quarterly reports provided by each investment manager.
5. That the Committee considers and notes any Corporate Governance issues arising from voting as detailed by each manager.
6. That the Committee considers any points arising from officer monitoring meetings.
7. That the Committee note comments regarding the Audit Commission study on the subject of suggested savings of Pension Fund Administration. This report is attached as **Appendix A**.

REPORT DETAIL

1. Background

- 1.1 A major restructure of the fund took place in the first quarter of 2005. The transition of the assets to the transition manager's account happened in mid-January 2005, with the 5 new managers taking charge of the assets from 14 February 2005.
- 1.2 As part of the Statement of Investment Principles a strategic benchmark was adopted for the overall Fund of Gilts + 3.6% gross (3% net) per annum.
- 1.3 In addition to the strategic benchmark adopted above, 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 appropriate to the type of investments being managed. These are shown in the following table:

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 20%	Global Equities	MSCI All World Index	2.5%

Manager and percentage of total Fund awarded	Mandate	Tactical Benchmark	Out performance Target (net of fees)
Royal London Asset Management (RLAM) 30%	Investment Grade Bonds	<ul style="list-style-type: none"> • 50% iBoxx Sterling Non Gilt Over 10 Year Index • 16.7% FTSE Actuaries UK Gilt Over 15 Years Index • 33.3% FTSE Actuaries Index-Linked Over 5 Year Index 	0.75%
Westerns 10%	Global High Yield Bonds	Gilts	3.0% (gross)
UBS 10%	Property	HSBC All Balanced Funds Median Index	n/a

1.4 Both Western Asset and 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.

1.5 From the Quarter 3 2006 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 previous used arithmetical method to the industry standard geometric method (please note that this will sometimes produce figures that arithmetically do not add up).

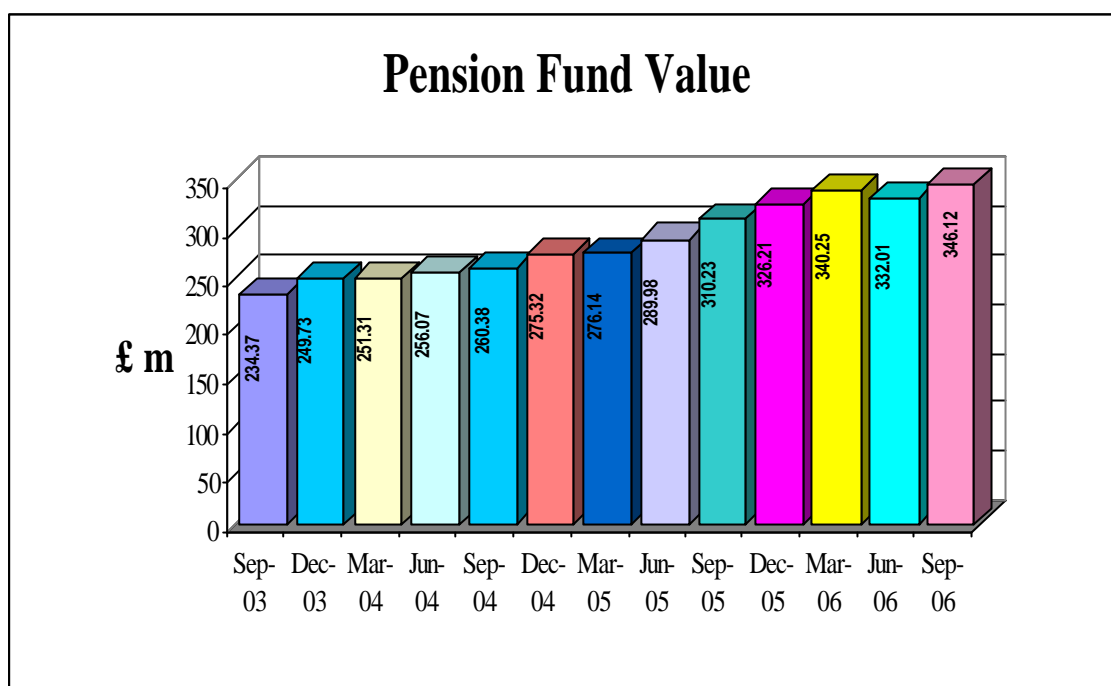
1.6 Managers are invited to present at the Investment Committee Meeting every 6 months. On alternate dates, they meet with officers for a formal monitoring meeting. The exception to this procedure is the Property Manager, UBS, who will attend two meetings per year, one with Officers and one with Pensions Committee. Managers who are to make presentations to this Committee are:

- Global Equities Manager (Alliance Bernstein),
- Property Manager (UBS), and
- Global Higher Yield Bonds Manager (Westerns).

1.7 Psolve's performance monitoring report is attached at **Appendix B**.

2. Fund Size

The total combined Fund value at the close of business on 30 September 2006 was £346.12m. This compares with a value of £332.01m at the 30 June 2006; an increase of 4.25%. The funds increase in value is a reflection of the quarter 3 performance, which is outlined and follows in this report.



3. Performance Figures against Benchmarks

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 30.09.06	12 Months to 30.09.06	3 Years to 30.09.06	5 years to 30.09.06
Fund	3.9%	11.0%	14.3%	8.0%
Benchmark return	3.9%	10.3%	13.7%	8.3%
*Difference in return	0.0%	0.7%	0.5%	-0.3%

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

The overall net performance of the Fund against the **Strategic Benchmark** (i.e. the strategy adopted) is shown below:

	Quarter to 30.09.06	12 Months to 30.09.06	3 Years to 30.09.06	5 years to 30.09.06
Fund	3.9%	11.0%	14.3%	8.0%
Benchmark return	5.6%	8.5%	12.5%	7.6%
*Difference in return	-1.6%	2.3%	1.6%	0.3%

* Totals may not sum due to geometric basis of calculation

As the fund has only been under its new arrangements since February 2005, historical performance greater than one year is no reflection of the new strategy.

The following table shows how each manager has performed against their **specific (tactical) benchmark** in the quarter to 30th September 2006.

NET FUND PERFORMANCE vs. BENCHMARK %

Manager	Net Performance	Benchmark	**Over/(Under) Performance
Standard Life	4.10	3.60	0.48
Alliance Bernstein	2.89	3.47	(0.56)
RLAM	4.00	4.00	-
Westerns*	5.97	4.91	1.01
UBS	3.70	4.30	(0.58)

* Performance is gross to reflect the benchmark and target

** Totals may not sum due to geometric basis of calculation

NET FUND PERFORMANCE vs. TARGET %

The table below compares the net performance returns against the target which comprises of the benchmark plus the agreed mandated out performance target.

Manager	Net Performance	Target	** Over/(Under) Performance
Standard Life	4.10	4.10	-
Alliance Bernstein	2.89	4.10	(1.16)
RLAM	4.00	4.19	(0.18)
Westerns*	5.97	5.66	0.29
UBS	3.70	n/a	n/a

* Performance is gross to reflect the benchmark and target

** Totals may not sum due to geometric basis of calculation

Source: WM Company, Fund Managers and PSolve

ANNUAL PERFORMANCE

The table below details the individual managers' performance over the latest 12 months against their specific (tactical) benchmark and target:

	Standard Life	Alliance Bernstein	Royal London	Western Asset*	UBS	Total
Return (performance)	17.70	9.09	5.50	3.91	20.40	11.00
Benchmark	14.70	8.53	5.00	5.57	21.60	10.30
**Over/(Under) Performance vs Benchmark	2.62	0.52	.48	(1.57)	(.99)	0.70
TARGET	16.70	11.03	5.75	8.57	n/a	n/a
** Over/(Under) Performance vs Target	.86	(1.75)	(0.24)	(4.29)	n/a	n/a

* Performance is gross to reflect the benchmark and target

** Totals may not sum due to geometric basis of calculation

4. Fund Manager Reports

4.1. UK Equities (Standard Life)

In accordance with agreed procedures officers met with representatives from Standard Life on the 6 November 2006 at which a review of the quarter 3 (July 06 to September 06) performance was discussed.

The value of the fund as at 30 September 2006 is £112.8m an increase of 4.14% since June 2006.

The performance (net of fees) for the quarter outperformed the benchmark by .48% (48 basis points) and matched the target of 4.10%.

The UK Equities element of the portfolio returned the better performance with the better performances coming from the Personal Goods and Construction and Materials sectors and the worst performances coming from the Industrial Metals and Oil & Gas Producers sectors.

Standard Life's current investment strategy is to be overweight in Industrials, Mining and Banks and underweight in Beverages, Property and Tobacco.

Standard Life's view of the UK market and economic outlook is that growth is picking up across sectors and believes that US interest rates have now stopped increasing and believe that in a few more months they are likely to be cut. The Market has fully priced in an interest rate move in November and is speculating about a further increase. They also believe that equity market valuations are still attractive relative to bonds or cash.

Concerns were raised as to whether their expanding business will have any impact on their success but standard life gave assurances that new business would not detract from their success.

Standard Life were asked if they have a strategy concerning the length of time that a stock is held for and Standard Life stated that stock analyses will determine when to buy or sell.

There were no governance or whistle blowing issues to report.

4.2. Global Equities (Alliance Bernstein)

Alliance Bernstein achieved a net return for the quarter of 2.89%. This represents an under performance of -.56% (56 basis points) when compared to the benchmark of 3.47%. They also under performed the target by -1.16% (116 basis points). Over the year they under performed the target by -1.75% (175 basis points).

The value of the portfolio increased from £71m in June 06 to £73m in September 06.

The positive sources of relative return came from the security selections and the negative sources coming from sector and currency selections.

Within the security selection the largest contributors to performance were BP PLC and the largest detractor from performance was Halliburton Company.

Within the sector selections the largest contributors to performance were the Financials and Industrials sectors and the detractors to performance coming from the Energy and Telecommunication Services sectors.

Within the currency selection the contributors to performance were the Brazilian real and the pound sterling and the detractors to performance coming from Swiss franc and Japanese yen.

Representatives from Alliance Bernstein are to make a presentation at this Committee.

4.3. UK Investment Grade Bonds (Bonds Gilts, UK Corporates, UK Index Linked, UK Other) – (RLAM)

In accordance with agreed procedures officers met with representatives from Royal London on the 6 November 2006 at which a review of the quarter 3 (July 06 to September 06) performance was discussed.

The value of the fund as at 30 September 2006 is £92.837m, an increase of 11.81% since June 2006. Royal London also reported at the meeting that the fund value had risen further to £94.6m at the end of October 2006.

The performance (net of fees) for the quarter equalled the benchmark of 4% and only slightly underperformed the target by -0.18% (-18 basis points).

Sector and stock selections were the key drivers of performance for this quarter.

The Asset allocation of the portfolio was also a key driver of performance. The portfolio was overweight in sterling credit bonds, underweight in conventional government bonds and underweight in index linked bonds. Sterling credit bonds currently receiving better returns.

Overall the profile of the Fund remained fairly constant throughout the quarter. They added Industrial Bonds to their holdings by purchasing new issues from Siemens and Bouygues. In addition the Fund increased its exposure to bank debt, with sales in the insurance sector used to provide cash.

Royal London's view of the economic outlook is that growth is expected in the UK and interest rates will rise. They also have a view that inflation is to remain under control.

Royal London's view of how the Portfolio will be taken forward would be to maintain underweight position in index-linked bonds, duration to be increased on further rise in bond yields and credit sector positions to be maintained with financial, structural and secured bonds offering the best value.

Concerns were raised about the value of having gilts included in the pension fund portfolio as we have reduced our gilt holdings from our Treasury Funds. Royal London is of the view that long term is their objective and they will use tactical duration positioning to enhance returns.

A discussion took place regarding the review of our current Statement of Investment Principles' and whether Royal London had any suggestions to enhance the returns. Royal London have sent in a proposal on possible changes which includes discretion on investing in sub investment grade bonds which their current agreement does not allow. Royal London's proposal has been sent to our investment advisor for their views.

There were no governance or whistle blowing issues to report.

4.4. Global High Yield Bonds (Westerns)

Westerns achieved a return for the quarter of 5.97. This represents an outperformance of 1.01% (101 basis points) against the benchmark. Westerns have also outperformed the target by .29% (29 basis points). Over the last year they have under performed the benchmark by -1.57% (157 basis points) and underperformed the target by - 4.29% (429 basis points).

The outperformance during the third quarter was primarily due to the overweight duration. The High Yield sector performed well during the quarter. Westerns reported that their emphasis on the U.S High-Yield auto sector was rewarded as spreads on GM and Ford narrowed.

Westerns remain underweight in longer dated gilts while yields remain low. They also aim to maintain an overweight duration primarily in U.S bonds.

At our previous meeting Westerns were also asked to consider the possibility of re-negotiating their fee terms and they have since forwarded a proposal. Currently this proposal is under discussion between Westerns and our investment advisors.

Representatives from Westerns are to make a presentation at this Committee.

4.5. Property (UBS)

UBS achieved a net return of 3.70%. This reflected a -0.58% (58 basis points) under performance against the benchmark. Over the last year they have underperformed the benchmark by -.99% (99 basis points)

UBS have believed since early 2004 that there would be significant upside potential in the cyclical recovery of South East office markets and as a result they have been increasing there exposure to this sector.

UBS are reporting that they are slightly underweight in retail, as tough conditions for retailers have prompted them to focus their position to be underweight in the retail warehousing sub-sector.

UBS have reported that the property investment market has lost little momentum since the beginning of this year and returns have mainly been driven by capital growth. The significant capital growth for the Triton Fund over the quarter has been from the continued letting activity at 10 King William Street in London.

Investors have now been invited to go on the waiting list for new subscriptions to this fund. Our investment advisors have advised that they are not recommending clients to invest into UK property at the current time as it is relatively highly priced. Our investment advisors have also advised that any further strategic investment in property should be a decision made as part of a full strategy review i.e. after the 2007 valuation.

Representatives from UBS are to make a presentation at this Committee.

5. Corporate Governance Issues

The Committee 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 Psolve.
- Psolve 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:

Alliance Bernstein, Westerns and UBS

- Psolve 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: Acting Pension Fund Accountant

Telephone No: 01708 432569

E-mail address : debbieford@haverling.gov.uk

STEPHEN EVANS
Chief Executive

Background Papers List

Standard Life Quarterly report to 30th September 2006
Alliance Bernstein Quarterly report to 30th September 2006
Royal London Quarterly report to 30th September 2006
Western Asset Quarterly report to 30th September 2006
UBS Quarterly report to 30th September 2006
The WM Company Performance Review Periods to 30th September 2006
Psolve Monitoring Report to 30th September 2006

EFFICIENCY CHALLENGE – COSTS OF ADMINISTRATING LOCAL GOVERNMENT PENSION FUNDS IN LONDON

1. Audit Commission Review

- 1.1.** The Audit Commission have completed a study on pension fund administration. It suggests savings could be achieved by using the principle of economies of scale i.e. merging funds.
- 1.2.** The study is at a very high level and concludes that the difference in total administration cost per scheme member between the average for a Metropolitan fund at £44 and the average for a London fund at £126 is £82. This cost difference is due to:
 - a. diseconomies of scale – London funds are smaller than Mets which the Audit Commission believe gives cost savings through scale, and
 - b. the ‘London effect’ – for example the higher cost of salaries, accommodation.
- 1.3.** The final section of the report explores options that would enable London funds to take advantage of the economies of scale enjoyed by non London funds, and to address the London effect.
- 1.4.** Some Members of the Society of London Treasurers have reviewed the report. Their view is
 - a. SLT welcomes the work undertaken by the Audit Commission as it will supplement the detailed work already taking place as a Centre of Excellence Study.
 - b. The Study also raises issues for further debate including:

The costs are nearly three years old and it is important that when making any decisions up to date information is available. SLT would want to explore why there is such a range of variation in the administration costs within London as this could suggest issues such as accounting treatment.
 - c. It should be noted that the study itself:

- Whilst providing headline savings goes on to say there are “limits to what (cost reductions) can be achieved in practice”
- Does not translate savings potential into the real impact ie. employer contributions
- Does not address the legal/statutory issues of the options.
- Consider the different performance returns of the fund.

1.5. London Borough of Havering will be part of a sub group reviewing the report further as it is leading the LCOE project mentioned above and called “Promoting partnership working for pensions administration in London”.

1.6 DCLG Response to the Report

We welcome the Audit Commission’s report to the extent that it properly identifies a number of issues that are relevant to everybody concerned with the administration of the Local Government Pension Scheme, both inside London and elsewhere. But we also recognise the limitations of the report, in terms of its scope and evidence-base, and will therefore shortly invite the Audit Commission, individual London pension fund authorities and other key stakeholders to attend a forum where the issues raised can be considered in more detail and a way forward agreed. We will then establish a steering group to manage and monitor progress on this important issue.

2. The LCOE Project

2.1. Project Title:

“Promoting partnership working for pensions administration in London”

2.2. Local Authorities involved:

London Borough of Havering, with partnership links to:

LPFA
London Borough of Redbridge

2.3. Project objectives:

- To establish a common framework of performance measures for London in order to consistently compare the success of service

delivery across different models.

- To define administering authority responsibilities within the Scheme regulations in order to develop a standard 'core' Service Level Agreement for use in partnership models.
- To propose effective extensions to partnership opportunities across London, specifically those models being pursued by Havering/Redbridge and LPFA, and to identify the strengths and weaknesses of the respective models.

2.4. Outline project plan:

Draw up draft performance indicators and methodology.

Draw up standard service level agreement for consultation.

Prepare consultation document on partnership models.

2.5. How other authorities are being involved:

The project is being managed by a team drawn from the principal partners with all the London Administering authorities being kept up to date through the local and London-wide pension forums as well as Society of London Treasurers.

The final results will be shared with the LGPS administering authorities nationally, within the GLA pensions family, with the Audit Commission and with best practice leaders in private sector pension funds.

2.6. Deliverables:

- Set of London pension performance indicators
- Standard service level agreement for LGPS pensions administration
- Proposals for effective extension of the Havering/Redbridge and LPFA partnership models
- Proposals with regard to the strengths and weaknesses of the differing models, together with their effective application across London

2.7. Benefits expected:

- Improvements in quality standards across London
- Potential for generating cost savings
- Best of good practice model for national application



MEETING	DATE	ITEM
PENSIONS COMMITTEE	19 December 2006	6

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: ANNUAL REVIEW OF THE STATEMENT OF INVESTMENT PRINCIPLES AND THE FUNDING STRATEGY STATEMENT

SUMMARY

In line with Local Government Pension Scheme Regulations and good practice the Council undertook an annual review of the Statement of Investment principles (SIP) and the Funding Strategy Statement (FSS). This report sets out how that review was undertaken and highlights where changes were required.

RECOMMENDATION

1. That the Committee note the consultation process;
2. That the Committee consider the issues that have been identified as needing to be included and amended in the FSS and SIP documents;
3. That the Committee agree the amended version of the SIP;
4. That the Committee consider the Council's position in respect of compliance to the Myner's Principles which is included within the revised SIP; and
5. That the Committee agree the amended version of the FSS.

REPORT DETAIL

1. Background

- 1.1 As part of the review comments and views were sought from all the Fund's stakeholders as well as discussing any necessary or possible changes with Members at this meeting.
- 1.2 The consultation process undertaken was as follows:
- a) Advice was sought from the Fund's Investment Consultants (Psolve) on how the February 2005 version of the SIP and FSS would need changing. The Fund's Investment Consultants were also asked to comment on the Council's compliance to the 10 Myner's principles.
 - b) All members of staff were asked for views and comments by means of a message included in:
 - October payslips; and
 - The Core Brief (Talking point.no.30).
 - c) Letters were sent to:
 - Current Employers of the Fund (Admitted/Scheduled bodies)
 - Employer representatives (Trade Unions)
 - Investment Managers
 - Actuaries (Hewitt, Bacon and Woodrow)
- 1.3 Responses were received from the following:
- The Fund's Investment Consultant in respect of the SIP and the Statement of Compliance to Myner's principles.
 - Some Fund Managers in respect of the SIP.
 - The Fund's Actuaries in respect of the FSS.

2. Issues identified as requiring amendment and inclusion in the SIP, Myner's Statement of Compliance and the FSS:

2.1 Statement of Investment Principles (SIP)

After consideration of the comments received and to incorporate the requirements of a strengthened SIP, the following main issues have been identified as requiring inclusion or amendment:

- a) Generally:

- References to names for the Fund's Investment Consultant, Performance Measurer and Actuary have been removed to minimise further changes.
 - Some formatting has been changed to improve the presentation.
- b) Investment Objective section – The previous version only included the gross return objective of gilts +3.6% over a ten year horizon. The net objective of 3% has now been included.
- c) Asset Allocation section -
- The Fund Manager's investment targets and relevant benchmarks has been added.
 - The Fund Manager's agreed fee structure has also been added to this section.
- d) Investment Responsibilities section – The responsibilities of the London Borough of Havering have now been split between the Pensions Committee and the Council's Executive Officers. This also included some new responsibilities as follows:

Pensions committee –

- Reviewing policy on social environment & ethical matters and the exercise of rights, including voting rights.
- Obtaining regular written advice from the Funds Investment Consultants about issues relating to reviewing investments, deciding whether or not to make any new investments or whether to redistribute assets.

Executive Officers –

- Management of surplus cash, lent through the money markets in accordance with the Council's Treasury Management code of practice.
- Investment accounting and preparing the annual reports and accounts for the fund
- Ensuring proper resources are available for the Council's responsibilities to be met.

- e) Responsibilities of the Custodian section - For ease of reference the responsibilities have now been split from one bullet point to 5 bullet points.
- f) Responsibilities of the Actuary section - additional responsibilities have been added as follows:
- Providing interim valuations to enable compliance to FRS17.
 - Providing advice on admission and withdrawal of employers to the scheme
 - Advising on the rate of employer contributions required to maintain appropriate funding levels.
- e) A section on the responsibilities of the Independent Performance Measurers has now been added and includes that they are responsible

for providing the Pensions Committee and officers with comparative information on the funds performance.

- f) A new section on 'Risk' has been added which includes clarification of the Pensions Committee approach to risk within the investment strategy adopted.

The revised December 2006 version of the SIP is attached as **Appendix A**.

2.2 Statement of Compliance with the 10 Myner's Principles

The Pension Fund publishes the degree of compliance with the Myner's Principles as an attachment in the SIP. Attached as **Appendix B** is the Statement of Compliance which shows the Fund's position in respect of compliance against the 10 Myner's principles.

This illustrates that the Fund is compliant with the majority of the ten principles but needs to consider the following areas:

- a) Principle No.3. Focus on asset allocation.
This principle states that "...Decision makers should consider a full range of investment opportunities..."

Action required for full compliance: That new ideas are considered, for examples, Dynamic Asset allocation mandates and alternative investment classes. This will be considered as part of the full investment strategy review following the 2007 actuarial valuation.

- b) Principle No.10. Regular Reporting.
This principle states that "...It is good practice for funds with more than 5,000 members to have a website dedicated to the fund".

Action required for full compliance: Sufficient information is available on the Council's own website for fund members to access, however views will be sought from fund members regarding the issue of a dedicated website in the annual pension fund leaflet.

2.3 Funding Strategy Statement

After consideration of the comments received no significant changes were made to the February 2005 version of the FSS.

The December 2006 version of the SIP is attached as **Appendix C**.

Financial Implications

There are no implications arising directly, however the review will ensure that the Pension Fund is both compliant and reduces the financial commitment on the General Fund, as far as possible.

Equalities Implications

None arising directly

Environmental Implications

None arising directly

Legal Implications

None arising directly

HR Implications

None arising directly

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STEPHEN EVANS
Chief Executive

Background Papers

February 2005 version of the Statement of Investment Principles
February 2005 version of the Statement of compliance
February 2005 version of the Funding Strategy Statement

STATEMENT OF INVESTMENT PRINCIPLES
London Borough of Havering Pension Fund ('the Fund')

Background

Legislation

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 as amended require Local Authority Pension Funds to prepare a Statement of Investment Principles (SIP) and to review it at least annually. They are also required to set out a Statement of Compliance with the ten Principles of Investment Management contained in the CIPFA document "Principles for Investment Decision Making in the Local Government Pension Scheme in the UK" published in April 2002.

Purpose and Scope of Scheme

The London Borough of Havering is the administering authority for the London Borough of Havering Pension Fund. The Fund is part of the Local Government Pension Scheme (LGPS) and provides death and retirement benefits for all eligible employees and their dependants. It is a final salary defined benefit Pension Scheme, which means that benefits are payable based on the employees' final salary. All active members are required to make pension contributions which are based on a fixed percentage of their pensionable pay as defined in the LGPS regulations and currently set at 6%. Manual workers in employ before 1st April 1998 have a protected 5% rate.

The London Borough of Havering is responsible for the balance of the costs necessary to finance the benefits payable from the Fund by applying employer contribution rates, determined from time to time (but at least triennially) by the Fund's actuary.

The London Borough of Havering has a direct interest in the investment returns achieved on the Fund's assets, but the benefits paid to pensioners are not directly affected by investment performance.

Pensions Committee

A dedicated group of Councillors (the "Pensions Committee") has been set up to deal with the majority of the Fund's investment issues. Major investment decisions will be referred for consideration to the Pensions Committee. The Pensions Committee is made up of elected representatives of The Council who each have voting rights and Trade Union representatives who have observer status. The Pensions Committee reports to Full Council and has full delegated authority to make investment decisions. The Pensions Committee decides on the investment policies most suitable to meet the liabilities of the Havering Pension Fund and has ultimate responsibility for the governance of the Fund including Investment Strategy.

In particular, the Pensions Committee (the Committee) has duties that include:

- Monitoring the investment performance of the Fund on a quarterly basis.
- Determining overall strategy;
- Ensuring compliance with legislative requirements;
- Receiving the triennial valuation prepared by the Funds actuary with recommended contribution levels;
- Determining asset allocation and benchmarking;
- Appointment of Investment Managers.

The Committee is set up under the Local Government Act so that, where necessary it can exercise decision-making powers. The Committee meets four times per year to hear reports from its officers, investment managers, actuary, investment consultant and performance measurement provider. Additional meetings are held as required in particular to ensure the appropriate Councillor training.

The Committee also receives and considers advice from executive officers of the Council and, as necessary, from its appointed external investment consultant (including specific investment advice), the actuary to the scheme and its investment managers.

The Regulations state that the administering authority must, when formulating its investment policy, have regard to the advisability of investing fund money in a wide range of investments and to the suitability of particular investments and types of investments.

Fund Objective

It was agreed at the then called Investment Committee Meeting of 4th April 2003 that the following be adopted as the Fund objective:

- To ensure that it has sufficient assets to pay pension benefits to scheme members as they fall due and;
- To set employer contribution rates at a level to attain 100% funding, as certified by the Fund's actuary, whilst keeping the employer contribution rate as low and as stable as possible.'

In order to lessen the burden on the employers within the Fund, the investment strategy is designed to achieve a higher return than the lowest risk strategy whilst maintaining a prudent approach to meet the underlying aims of the Fund.

Investment Objective

It was agreed at the then called Investment Committee Meeting of 17th December 2003 that the following be adopted as the Financial Investment Objective:

'To target 100% funding on an ongoing basis by investing to achieve a return on the overall Fund of long gilts +3.6% gross p.a. (long Gilts plus 3.0% net of fees) over a ten-year time horizon, thereby reducing the likelihood of an increase to the employers' future contribution.'

This is to be achieved by targeting:

- Gilts + 1.0% p.a. in the Matching Fund (which comprises 30% of the Total fund)
- Gilts + 4.5% p.a. in the Investment Fund (which comprises 70% of the Total Fund)

Asset Allocation

- At the then called Investment Committee meeting on 17th December 2003, the following strategic asset allocation was approved:

		%
Property	-	10
Global High Yield Bonds	-	10
UK Equities	-	30
Global Equities	-	20
Fixed Interest Gilts	}	
Index-Linked Gilts	}	30
Corporate Bonds	}	

- The general asset allocation was based on results taken from the Asset Liability study undertaken by the Fund's actuary. The detailed allocation was taken following advice from the Fund's investment consultant.
- The Committee appointed five investment managers to implement its chosen strategy. Investment targets have been set for each manager and they are measurable over a rolling three year period as follows:

Mandate (% of fund awarded)	Manager	Tactical Benchmark	Target
Property (10%)	UBS	HSBC All balanced (property) Fund's median	To outperform the benchmark
Global high Yield Bonds (10%)	Western Asset Management	Long Gilts	+ 3% gross of fees
UK Equities (30%)	Standard Life	FTSE All Share	+2% net of fees
Global Equities (20%)	Alliance Bernstein	MSCI All Countries Index	+2.5% net of fees
Investment grade bonds (30%)	Royal London Asset Management	composite	+0.75% net of fees

Fees

UBS is remunerated by a fixed management fee and the expenses inherent in the management of the pooled property fund. Royal London Asset Management and Standard Life are remunerated by an ad valorem scaled fee based on the market value at quarter end of the assets under management. Alliance Bernstein is also remunerated by an ad valorem scaled fee based on quarter end closing market values of the assets under management. Western Asset management are remunerated by a management fee and administrative fees and expenses deducted from the returns on the fund, as specified within its' prospectus.

Investment Responsibilities

Responsibilities of the Pensions Committee

- Overall investment strategy and strategic asset allocation with regard to the suitability and diversification of investments;
- Monitoring compliance with this Statement of Investment Principles and reviewing its contents;
- Appointing investment managers, an independent custodian, the Fund actuary, external independent advisers and investment consultant;
- Reviewing investment manager performance against established benchmarks on a regular basis;
- Reviewing the managers' expertise and the quality and sustainability of their investment process, procedures, risk management, internal controls and key personnel;
- Reviewing policy on social environmental and ethical matters and on the exercise of rights, including voting rights;
- Reviewing the investments over which they retain control and to obtaining written advice about them regularly from the investment consultant. The Committee will also obtain written advice from the Investment Consultant when deciding whether or not to make any new investments or to transfer or redistribute assets within the mandates, whether due to market movements or other factors;
- Rebalancing the assets with reference to trigger points. When the Investment Fund or the Matching Fund allocation is 5% or more than the strategic allocation the assets will be rebalanced back to 2.5% above the strategic asset allocation. The priority order for funding rebalancing is to first use surplus cash, followed by dividend and or interest income and lastly using sales of overweighted assets. The Committee will seek the written advice of the investment consultant with regard to rebalancing and detailed distribution of cash or sale proceeds.

The Pensions Committee is advised by The Council's Executive Officers, who are responsible for:

- Ensuring compliance with statutory requirements and the investment principles set out in this document and reporting any breaches to the Committee;
- Management of surplus cash, which is lent through the money markets in accordance with the Council's Treasury Management Code of Practice. Performance is measured against the 7-day London Interbank Bid (LIBID) rate;
- Investment accounting and preparing the annual report and accounts of the fund;
- Ensuring proper resources are available for the Council's responsibilities to be met.

The Investment Managers are responsible for:

- The investment of pension fund assets in compliance with the legislation and the detailed investment management agreements;
- Tactical asset allocation around the strategic benchmark set by the then called Investment Committee;
- Stock selection within asset classes;
- Voting shares in accordance with agreed policy;
- Preparation of quarterly reporting including a review of past investment performance, transaction costs and future investment strategy in the short and long term;
- Attending meetings of the Pensions Committee and officers of the council as required.

The Independent Custodian is responsible for:

- Provision of monthly accounting data summarising details of all investment transactions during the period;
- Providing investment transaction details in a timely manner to the independent performance measurers;
- Safe custody and settlement of all investment transactions, collection of income, withholding tax reclaims and the administration of corporate actions;
- The separation of investment management from custody is paramount for the security of the assets of the Fund.

The Actuary is responsible for:

- Undertaking a triennial valuation of the Fund's assets and liabilities and interim valuations as required, including those to enable compliance with the reporting standard FRS17;
- Advising on the rate of employer contributions required to maintain appropriate funding levels;
- Providing advice on the admission and withdrawal of employers to the scheme, including external employers following externalisation of services;
- Preparing the Funding Strategy Statement.

The Independent Measurers are responsible for:

- Providing the Investment Committee and the Council's executive officers with comparative information on the Fund's performance relative to other funds and the relative performance of different types of investments.

The Investment Consultant is responsible for:

- Advising on the investment strategy of the fund and its implementation;
- Advising on the selection of investment managers, and the custodian;
- Providing investment information, investment advice¹ and continuing education to the Investment Committee and the executive officers;
- Independent monitoring of the investment managers and their activities.

The investment adviser is remunerated by way of a fixed cost retainer that covers routine monitoring and routine maintenance tasks and by agreed fixed costs on a project specification basis. From time to time a project may be undertaken which is subject to time cost fees.

The Auditor

- The Fund is audited annually by the Audit Commission. The financial year end is 31st March.

¹ The Investment Consultant is authorised by and registered with the Financial Services Authority for the provision of investment advice.

The Historic Position of Fund

The Fund is unlikely to be fully funded for several years. This has arisen for two main reasons.

- The reduction in the funding level to 75% of liabilities as a result of government regulations prior to the introduction of the community charge:
- The cost of the redundancy programme in the mid 1990's.

(Note that since 1998 redundancies and early retirements are a charge on departmental cost centres and external employers rather than the Pension Fund). In addition the withdrawal of tax relief on pension fund dividend income arising from the 1997 budget has been a further factor in delaying the achievement of full funding. The downturn in the value of equities has been a further problem, although as at November 2007, the gap has almost been recovered.

At the last triennial valuation (at 31st March 2004) the funding ratio was 65.3%.

The Fund is obliged to prepare a Funding Strategy Statement (FSS), which is prepared by the Fund's actuary and published on the Council's web site. This outlines the method by which the Fund will return to an acceptable level of solvency. This is expected to be achieved by a combination of increased contributions to the Fund, and anticipated increased investment returns following the implementation of the new investment strategy in 2005.

Review

- The investment strategy is reviewed by the Pensions Committee, every three years following the actuarial valuation results and informally on an annual basis.
- The current review is based on the Actuarial Valuation 2004 and an Asset/Liability study and advice on asset allocation from the Fund's Investment Consultant in 2005

Reporting

The investment performance of the manager is reported to the Pensions Committee and Officers quarterly. Reports are received from the fund's performance measurers and investment consultants, along with executive summaries from each investment manager including details of any voting undertaken in that quarter.

Risk

In 2005, following recommendations from the 2004 Actuarial Valuation and an Asset/Liability study commissioned from the Fund's investment consultant, the then called Investment Committee agreed to diversify its investments with the objective of reducing the volatility of investment returns.

The balance of assets and anticipated returns was considered that in order to maintain the funding level the Fund would need to achieve returns equal to 1.8 per cent per annum above those on long-dated index-linked gilts. This target was viewed as consistent with the investment strategy of 70 per cent equities and 30 per cent bonds used as the basis of the 2004 Actuarial Valuation.

In order to reduce the volatility of investment returns, it was decided retain the asset mix to 70 per cent in a mixture of equities, property and alternative assets with the remaining 30 per cent in low volatility investment grade bonds. Although this is not in line with a liability-matched position, it is intended to grow the value of the assets at a managed level of risk with reduced long-term costs for the Council.

Investments

The powers and duties of the Fund to invest monies are set out in the Local Government Pension Scheme (Management & Investment Funds) Regulations 1998. The Fund is required to invest any monies which are not required to pay pensions and other benefits and in so doing take account of the need for suitable diversified portfolio investments and the advice of persons properly qualified (including officers) on investment matters.

Types of Investment

In broad terms investments may be made in accordance with the regulations in equities, fixed interest and other bonds and property and in the UK and overseas markets. The regulations specify other investment instruments may be used e.g. financial futures, traded options, insurance contracts, stock lending, sub-underwriting contracts, although historically it has not been the practice of the Fund to participate in these. Any limitations on the use of these instruments will be included within the Investment management Agreements (IMA's).

The regulations also specify certain limitations on investments. Principally these place a limit of 10% of the total value of the Fund on any single holding, or deposit with a single bank or institution or investments in unlisted securities.

The then called Investment Committee has set out control ranges and restrictions for the Fund's investments. These control ranges and restrictions have been considered when setting the benchmarks for each Manager.

Investment Management

The Investment Manager's are each bound by an investment management agreement (IMA) that takes account of:

- The benchmark set, and the allocation of assets within this benchmark;
- Cash needs;
- Risk tolerances;

- The policies on Corporate Governance and Socially Responsible Investment, given later in this document.

The Investment Manager must also select the appropriate types of investment as defined in the Regulations.

Investment Manager Controls

The Investment Managers are authorised and regulated by the Financial Services Authority (FSA), and must comply with the regulations contained within the Financial Services and Markets Act 2000 (FSMA 2000). Under these regulations, the manager must ensure that suitable internal operating procedures and risk frameworks are in place. FSMA is designed to provide a Fund such as this with an adequate level of protection, and the Investment Managers are obliged to meet their obligation imposed by this act.

The mandates set for the Managers contain controls to ensure compliance with best practice and regulations. Controls on cash levels and transfers of cash and assets are also set within the IMA's.

Social Environmental and Ethical Considerations

'The Pensions Committee has considered socially responsible investment in the context of its legal and fiduciary duties, and the view has been taken that non-financial factors should not drive the investment process at the cost of financial return on the Council's Pension Fund. Therefore, the Pensions Committee is of the view that there should be non-interference with the short-term day-to-day decision making of the Fund Managers.

Over the longer term, the Pensions Committee requires the Investment Manager(s) to consider, as part of the investment decisions, socially responsible investment issues and the potential impact on investment performance. Beyond this, the Investment Manager(s) has full discretion with the day to day decision making.'

Corporate Governance and Voting Policy

Corporate Governance Policy

'The policy of the Havering Pension Fund is to accept the principles laid down in the Combined Code as interpreted by the Institutional Shareholders Committee 'Statement of Principles'.

In making investment decisions the Council will, through its Pension Fund Investment Manager, have regard to the economic interests of the Pension Fund as paramount and as such

1. Will vote at all general meetings of UK companies in which the Fund is directly invested.

2. Will vote in favour of proposals that enhance shareholder value.
3. Will enter into timely discussions with management on issues which may damage shareholders' rights or economic interests and if necessary to vote against the proposal.
4. Will take a view on the appropriateness of the structure of the boards of companies in which the Fund invests.
5. Will take a view on the appropriateness of the remuneration scheme in place for the directors of the company in which the Fund invests

Beyond this, the Council will allow its Investment Manager(s) full freedom with the day to day decision making.

The Pensions Committee will, where appropriate,

6. Receive quarterly information from the Investment Manager, detailing the voting history of the Investment Manager on contentious issues.
7. Consider a sample of all votes cast to ensure they are in accordance with the policy and determine any Corporate Governance issues arising.
8. Receive quarterly information from the Investment Manager, detailing new investments made.'

Consultation and Publication

The Council has reviewed the Statement of Investment Principles in association with the Funds Investment Consultant and has also consulted with the employers of the fund, employee representatives and all fund managers through written correspondence.

Scheme members are informed of the publication and review process in the annual pension fund leaflet which is distributed with their Annual Benefit Statement.

A copy of this document together with the Myner's Statement of Compliance has been published on the Council's website.

The Statement of Investment Principles will be reviewed at least annually and a revised version issued as soon as any significant change occurs. Any comments and suggestions will be considered. Please contact the Pension Fund Accountant with your views at info@haverling.gov.uk .

MYNERS Principles for Investment Decision Making

The Pensions Committee will regularly review the Scheme's compliance with this Statement of Investment Principles.

The Action the Council has taken to meet the recommendations made in the Myner's report (as further discussed in the CIPFA Principles for Investment Decision Making in the LGPS has been updated in December 2006 and is attached.

STATEMENT OF COMPLIANCE

APPENDIX B

	MYNER'S PRINCIPLES (Additions to the original principles below are underlined)	HAVING POSITION
<p>1.</p>	<p>Effective decision-making</p> <p>Decisions should be taken only by persons or organisations with the skills, information and resources necessary to take them effectively. Where trustees elect to take investment decisions, they must have sufficient expertise and appropriate training to be able to evaluate critically any advice they take.</p> <p>Trustees should ensure that they have sufficient in-house staff to support them in their investment responsibilities. <u>Funds with more than 5,000 members should have access to in-house investment expertise equivalent at least to one full-time staff member who is familiar with investment issues.</u> Trustees should also be paid, unless there are specific reasons to the contrary.</p> <p>It is good practice for trustee boards to have an investment subcommittee to provide the appropriate focus. <u>The chair of the board should be responsible for ensuring that trustees taking investment decisions are familiar with investment issues and that the board has sufficient trustees for that purpose. For funds with more than 5,000 members, the chair of the board and at least one-third of trustees should be familiar with investment issues (even where investment decisions have been delegated to an investment subcommittee).</u></p> <p>Trustees should assess whether they have the right set of skills, both individually and collectively, and the right structures and processes to carry out their role effectively. They should draw up a forward-looking business plan.</p>	<p>Investment Adviser appointed to advise on investment decisions.</p> <p>Pension Fund Accountant provides in house support to trustees.</p> <p>Quarterly meetings with Fund Managers provide close monitoring of their investment decisions.</p> <p>Structured training of Members ensures that Members are proficient in investment issues. The Council incorporates training within its forward looking business plan for the fund.</p> <p>Policy to ensure slow turnover of Pension Committee Members facilitates continuity and helps to maintains expertise within the Committee.</p> <p>Forward looking plan presented at first committee meeting of the financial year.</p> <p>Summary Full Compliance</p>
<p>2.</p>	<p>Clear Objectives</p> <p>Trustees should set out an overall investment objective for the fund that:</p> <ul style="list-style-type: none"> represents their best judgement of what is necessary to meet the fund's liabilities given their understanding of the contributions likely to be received from employer(s) and employees; and 	<p>After full consultation with the Council's Actuary and Investment Advisers a clear financial and therefore fully measurable investment objective for the fund has been set.</p>

STATEMENT OF COMPLIANCE

APPENDIX B

<p align="center">MYNER'S PRINCIPLES</p> <p>(Additions to the original principles below are underlined)</p>	<p align="center">HAVING POSITION</p>
<ul style="list-style-type: none"> takes account of their attitude to risk specifically their willingness to accept underperformance due to market conditions. <p>Objectives for the overall fund should not be expressed in terms which have no relationship to the fund's liabilities, such as performance relative to other pensions funds, or to a market index.</p>	<p>Summary Full compliance</p>
<p>3. Focus on asset allocation</p> <p>Strategic asset allocation decisions should receive a level of attention (and, where relevant, advisory or management fees) that fully reflects the contribution they can make towards achieving the fund's investment objective. Decision-makers should consider a full range of investment opportunities, not excluding from consideration any major asset class, including private equity. Asset allocation should reflect the fund's own characteristics, not the average allocation of other funds.</p>	<p>Review of Asset Allocation done periodically/ annually. Investment Advisers lead on the review. Fund has formulated its own asset allocation based on identified liabilities particular to the fund.</p> <p>A full investment strategy review is due following the actuarial valuation results in 2007.</p> <p>Summary Currently majority compliant.</p> <p>Action New ideas need to be reviewed for example Dynamic Asset Allocation mandates, as does the position with regard to alternative investment classes, which have become more mainstream tools for pension funds.</p>

STATEMENT OF COMPLIANCE

APPENDIX B

	MYNER'S PRINCIPLES (Additions to the original principles below are underlined)	HAVING POSITION
4.	<p>Expert advice <u>Funds should contract separately for actuarial, strategic asset allocation and fund manager selection advice and these contracts</u> should be opened to separate competition. The fund should be prepared to pay sufficient fees for each service to attract a broad range of kinds of potential providers.</p>	<p>Contracts have been awarded separately and two advisors appointed – Investment advisor and Actuarial Advisor.</p> <p>Summary Full compliance</p>
5.	<p>Explicit mandates Trustees should agree with both internal and external investment managers an explicit written mandate covering agreement between trustees and managers on:</p> <ul style="list-style-type: none"> • an objective, benchmark(s) and risk parameters that together with all the other mandates are coherent with the fund's aggregate objective and risk tolerances; • the manager's approach in attempting to achieve the objective; and • clear timescale(s) for <u>performance</u> measurement and evaluation. <p>The mandate and trust deed and rules should not exclude the use of any set of financial instruments, without clear justification in the light of the specific circumstances of the fund.</p> <p>Trustees, or those to whom they have delegated the task, should have a full understanding of the transaction-related costs they incur, including commissions. They should understand all the options open to them in respect of these costs, and should have an active strategy – whether through direct financial incentives or otherwise – for ensuring that these costs are properly controlled without jeopardising the fund's other objectives. Trustees should not without good reason permit soft commissions to be paid in respect of their fund's transactions.</p>	<p>Explicit mandates with specific benchmarks and targets over a 3 year rolling period are detailed in the SIP.</p> <p>Trustees do not permit soft commissions. Equity managers report periodically on transaction costs.</p> <p>Summary Majority compliance</p> <p>Action Training will be considered for the Committee members relating to transaction-related costs commencing with self assessment. Otherwise compliant.</p>

STATEMENT OF COMPLIANCE

APPENDIX B

	<p align="center">MYNER'S PRINCIPLES (Additions to the original principles below are underlined)</p>	<p align="center">HAVERING POSITION</p>
<p>6.</p>	<p>Activism <u>Trustees should comply with the Institutional Shareholders Committee statement of principles on the responsibilities of institutional shareholders and agents, and ensure that the principles are incorporated into fund managers' mandates. In line with the principles,</u> trustees should also ensure that managers have an explicit strategy, elucidating the circumstances in which they will intervene in a company; the approach they will use in doing so; and how they measure the effectiveness of this strategy.</p>	<p>Fund managers are instructed to vote in accordance with their proxy voting policies. These policies have been reviewed by Havering. Voting activity is reported on an exceptions basis and considered by the Investment Sub-Committee.</p> <p>Summary Full compliance</p>
<p>7.</p>	<p>Appropriate benchmarks Trustees should:</p> <ul style="list-style-type: none"> • explicitly consider, in consultation with their investment manager(s), whether the index benchmarks they have selected are appropriate; in particular, whether the construction of the index creates incentives to follow sub-optimal investment strategies; • if setting limits on divergence from an index, ensure that they reflect the approximations involved in index construction and selection; • consider explicitly for each asset class invested, whether active or passive management would be more appropriate given the efficiency, liquidity and level of transaction costs in the market concerned; and • where they believe active management has the potential to achieve higher returns, set both target and risk controls that reflect this, giving the managers the freedom to pursue genuinely active strategies. 	<p>The Fund in aggregate has a liability related benchmark (strategic benchmark). However for individual mandates, the fund managers have a benchmark (tactical benchmark) and performance target that may be based on broad indices or composites.</p> <p>This was considered as part of the full investment strategy review following the 2004 actuarial valuation.</p> <p>The Committee, when setting the investment strategy, took the view that active management of particular assets does have potential to achieve higher returns and the mandates awarded to managers allow those managers to use appropriate levels of risk in order to achieve the required returns.</p>

STATEMENT OF COMPLIANCE

APPENDIX B

<p>MYNER'S PRINCIPLES (Additions to the original principles below are underlined)</p>	<p>HAVERING POSITION</p>
	<p>Summary Full compliance</p>
<p>8.</p>	<p>Performance measurement Trustees should arrange for measurement of the performance of the fund and make formal assessment of their own procedures and decisions as trustees. They should also arrange for a formal assessment of performance and decision-making delegated to advisers and managers.</p> <p>Regulations that came into force on 30 December 2005 introduced a change that required that <u>the SIP should disclose the ways in which risks are to be measured and managed</u> (rather than simply disclosing a policy on risk)</p>
<p>Performance measurer reports to Committee annually. The investment adviser monitors and reports quarterly on performance, personnel, process and organisational issues at fund managers. The fundamental risk of the investment strategy not delivering the required – net of fee- return is measured quarterly in terms of the overall financial objective. The SIP has been updated to reflect this.</p> <p>Annual Review of the adviser also takes place.</p> <p>Committee performance is reviewed as part of an annual report. Performance can be measured by the success or otherwise of the strategy put in place and the individual performance of investment managers appointed by the Committee, and full compliance with governance requirements including attendance at all training sessions.</p> <p>Summary Full compliance</p>	

STATEMENT OF COMPLIANCE

APPENDIX B

	<p align="center">MYNER'S PRINCIPLES (Additions to the original principles below are underlined)</p>	<p align="center">HAVERING POSITION</p>
<p>9.</p>	<p>Transparency A strengthened Statement of Investment Principles should set out:</p> <ul style="list-style-type: none"> • who is taking which decisions and why this structure has been selected; • the fund's investment objective; • the fund's planned asset allocation strategy, including projected investment returns on each asset class, and how the strategy has been arrived at; • the explicit mandates given to all advisers and managers (including objective, benchmark, risk parameters, clear timescales of evaluation ; and • the nature of the fee structures in place for all advisers and managers, and why this set of structures has been selected. 	<p>The SIP has been reviewed and updated as at December 2006 and now complies with a strengthened statement.</p> <p>Summary Full compliance</p>
<p>10.</p>	<p>Regular reporting Trustees should publish their Statement of Investment Principles and the results of their monitoring of their own performance, and that of advisers and managers. They should send key information from these annually to members of these funds, <u>as well as posting this on a fund website</u>, including an explanation of why the fund has chosen to depart from any of these principles. <u>It is good practice for funds with more than 5,000 members to have a website dedicated to the fund.</u></p>	<p>The SIP and this statement of compliance are published on the Councils web site.</p> <p>Performance monitoring reports are also published on the Council's website.</p> <p>Key information including performance, SIP and the review process is communicated to members annually in the Pension Fund Leaflet which is distributed with the Annual Benefit Statements.</p> <p>Summary Majority compliance Action Although a dedicated Web site is not available information is available on the council's own website, however views will be sought from relevant stakeholders on the issue of a dedicated website.</p>

STATEMENT OF COMPLIANCE

APPENDIX B

LONDON BOROUGH OF HAVERING PENSION FUND

Funding Strategy Statement

Overview

This Statement has been prepared in accordance with Regulation 76A of the Local Government Pension Scheme Regulations 1997 (the LGPS Regulations). The Statement describes London Borough of Havering's strategy, in its capacity as Administering Authority (the Administering Authority), for the funding of the London Borough of Havering Pension Fund (the Fund).

As required by Regulation 76A(2), the Statement has been prepared having regard to guidance published by CIPFA in March 2004.

Consultation

In accordance with Regulation 76A(1), all employers participating within the London Borough of Havering Pension Fund have been consulted on the contents of this Statement and their views have been taken into account in formulating the Statement. However, the Statement describes a single strategy for the Fund as a whole.

In addition, the Administering Authority has had regard to the Fund's Statement of Investment Principles published under Regulation 9A of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (the Investment Regulations).

The Fund Actuary, Hewitt Bacon and Woodrow, has also been consulted on the contents of this Statement.

Policy Purpose

The three main purposes of this Funding Strategy Statement are:

- To establish a clear and transparent strategy, specific to the Fund, which will identify how employer's pension liabilities are best met going forward.
- To support the regulatory requirement in relation to the desirability of maintaining as nearly constant employer contribution rates as possible.
- To take a prudent longer-term view of funding the Fund's liabilities.

The Aims of the Fund

The aims of the Fund are:

1. To enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the Scheduled bodies, Admitted bodies and to the taxpayers.

The Administering Authority recognises that the requirement to keep employer contribution rates as nearly constant as possible can run counter to the following requirements:

- the regulatory requirement to secure solvency,
- the requirement that the costs should be reasonable, and
- maximising income from investments within reasonable cost parameters (see 4 below)

Producing low volatility in employer contribution rates requires material investment in assets which 'match' the employer's liabilities. In this context, 'match' means assets which behave in a similar manner to the liabilities as economic conditions alter. For the liabilities represented by benefits payable by the Local Government Pension Scheme, such assets would tend to comprise gilt edged investments.

Other classes of assets, such as other equities and property, are perceived to offer higher long term rates of return, on average, and consistent with the requirement to maximise the returns from investments the Administering Authority invests a substantial proportion of the Fund in such assets. However, these assets are more risky in nature, and that risk can manifest itself in volatile returns over short term periods.

This short term volatility in investment returns can produce a consequent volatility in the measured funding position of the Fund at successive valuations, with knock on effects on employer contribution rates. The impact on employer rates can be mitigated by use of smoothing adjustments at each valuation.

The Administering Authority recognises that there is a balance to be struck between the investment policy adopted, the smoothing mechanisms used at valuations, and the resultant smoothness of employer contribution rates from one valuation period to the next.

The Administering Authority also recognises that the position is potentially more volatile for Admission Bodies with short term contracts where utilisation of smoothing mechanisms is less appropriate.

2. To ensure that sufficient resources are available to meet all liabilities as they fall due.

The Administering Authority recognises the need to ensure that the Fund has, at all times, sufficient liquid assets to be able to pay pensions, transfer values, costs, charges and other expenses. It is the Administering Authority's policy that such expenditure is met, in the first instance, from incoming employer and employee contributions to avoid the expense of disinvesting assets. The Administering Authority monitors the position on a monthly basis to ensure that all cash requirements can be met.

3. To manage employers' liabilities effectively.

The Administering Authority seeks to ensure that all employers' liabilities are managed effectively. In a funding context, this is achieved by seeking regular actuarial advice, ensuring that employers and Investment Committee Members are properly informed, and through regular monitoring of the funding position.

4. To maximise the income from investments within reasonable risk parameters.

The Administering Authority recognises the desirability of maximising investment income within reasonable risk parameters. Investment returns higher than those available on government stocks are sought through investment in other asset classes such as stocks and property. The Administering Authority ensures that risk parameters are reasonable by:

- restricting investment to the levels permitted by the Investment Regulations.
- restricting investment to asset classes generally recognised as appropriate for UK pension funds.
- analysing the potential risk represented by those asset classes in collaboration with the Fund's Actuary, Investment Advisors and Fund Managers.

Purpose of the Fund

The purpose of the Fund is:

1. To pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses.
2. To receive monies in respect of contributions, transfer values and investment income.

Responsibilities of the key parties

The three parties whose responsibilities to the Fund are of particular relevance are the Administering Authority, the Individual Employers and the Scheme Actuary.

Their key responsibilities are as follows:

Administering Authority

The Administering Authority's key responsibilities are:

1. Collecting employer and employee contributions and, as far as the Administering Authority is able to, ensure these contributions are paid by the due date.

Individual employers must pay contributions in accordance with Regulations 79, 80 and 81 of the LGPS Regulations. The Administering Authority will ensure that all employers are aware of these requirements

especially the requirement of the Pensions Act 1995 that members' contributions are paid by the 19th of the month following the month that it is paid by the member. The contributions to the Pension Fund are monitored and processed by the Pension Administration team. If contributions are received more than a month after payment is due, interest will be charged at the rate of 1% above the bank base rate.

The Administering Authority will ensure that action is taken to recover assets from Admitted Bodies whose Admission Agreement has ceased by:

- requesting that the Fund Actuary calculates the deficit at the date of the closure of the Admission Agreement
- notifying the Admitted Body that it must meet any deficit at the cessation of the Agreement .

2. Invest surplus monies in accordance with the regulations.

The Administering Authority will comply with Regulation 9 of the Investment Regulations.

3. Ensure that cash is available to meet liabilities as and when they fall due.

The Administering Authority recognises this duty and discharges it in the manner set out in the Aims of the Fund above.

4. Manage the valuation process in consultation with the Fund's actuary

The Administering Authority ensures it communicates effectively with the Fund Actuary to:

- agree timescales for the provision of information and provision of valuation results
- ensure provision of data of suitable accuracy
- ensure that the Fund Actuary is clear about the Funding Strategy
- ensure that participating employers receive appropriate communication throughout the process
- ensure that reports are made available as required by Guidance and Regulation

5. Prepare and maintain a Statement of Investment Principles and a Funding Strategy Statement after due consultation with interested parties.

The Administering Authority will ensure that both documents are prepared and maintained in the required manner.

6. Monitor all aspects of the Fund's performance and funding and amend these two documents if required.

The Administering Authority monitors the funding position of the Fund on a quarterly basis, and the investment performance of the Fund on a monthly basis. The Statement of Investment Principles and Funding Strategy Statement will be formally reviewed annually, unless circumstances dictate earlier amendment.

Individual Employers will:

1. Deduct contributions from employees' pay.
2. Pay all contributions, including their employer contribution as determined by the actuary, promptly by the due date.
3. Exercise discretions within the regulatory framework.
4. Pay for added years in accordance with agreed arrangements.
5. Notify the administering authority promptly of all changes to membership, or other changes which affect future funding

The Fund Actuary will:

1. Prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the administering authority and having regard to the Funding Strategy Statement.

Valuations will also be prepared in accordance with generally accepted actuarial methods and reported on in accordance with Guidance Note 9 issued by the Institute and Faculty of Actuaries, to the extent that the Guidance Note is relevant to the LGPS.

2. Prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

Such advice will take account of the funding position and Strategy of the Fund, along with other relevant matters.

Solvency

The Administering Authority will prudentially seek to secure the solvency of the Fund. For this purpose the Administering Authority defines solvency as being achieved when the value of the Fund's assets is greater than or equal to the value of the Fund's liabilities when measured using 'ongoing' actuarial methods and assumptions.

'Ongoing' actuarial methods and assumptions are taken to be measurement by use of the projected unit method of valuation, using assumptions generally recognised as suitable for an open, ongoing UK pension fund with a sponsoring employer of sound covenant.

The financial assumptions used to assess the funding level will have regard to the yields available on long term fixed interest and index linked gilt edged investments. The Administering Authority has also agreed with the Fund Actuary that the assumptions will make partial allowance for the higher long term returns that are expected on the assets actually held by the Fund, and understands the risks of such an approach if those additional returns fail to materialise.

Consistent with the aim of enabling employer contribution rates to be kept as nearly constant as possible, and having regard to the risks inherent in such an approach, the Administering Authority has also agreed with the Fund Actuary the use of explicit smoothing adjustments in making the solvency

measurement. It is unlikely that use of these smoothing adjustments will be extended to employers whose participation in the Fund is for a fixed period (for example, an employer admitted by virtue of having been awarded a best value outsourcing contract).

Funding Strategy

Where a valuation reveals that the Fund is in surplus or deficiency against this solvency measure, employer contribution rates will be adjusted to target restoration of the solvent position over a period of years (the recovery period). The recovery period applicable for each participating employer is set by the Administering Authority in consultation with the Fund Actuary and the employer, with a view to balancing the various funding requirements against the risks involved due to such issues as the financial strength of the employer and the nature of its participation in the Fund.

The Administering Authority recognises that a large proportion of the Fund's liabilities are expected to arise as benefit payments over long periods of time. For employers of sound covenant, the Administering Authority is prepared to agree to recovery periods which are longer than the average future working lifetime of the membership of that employer. The Administering Authority recognises that such an approach is consistent with the aim of keeping employer contribution rates as nearly constant as possible. However, the Administering Authority also recognises the risk in relying on long recovery periods and has agreed with the Fund Actuary a limit of 30 years. The Administering Authority's policy is to agree recovery periods with each employer which are as short as possible within this framework.

For employers whose participation in the fund is for a fixed period it is unlikely that the Administering Authority and Fund Actuary would agree to a recovery period longer than the remaining term of participation.

Consistent with the requirement to keep employer contribution rates as nearly constant as possible, the Administering Authority permits some employers to be treated as a group for the purposes of setting contribution rates. In particular, contribution rates could be very volatile for smaller employers due to the increased likelihood that demographic movements would have a material effect. The Administering Authority recognises that grouping can give rise to cross subsidies from one employer to another over time. The Administering Authority's policy is to consider the position carefully at each valuation and to notify each employer that is grouped that this is the case, and which other employers it is grouped with. If the employer objects to this grouping, it will be offered its own contribution rate. For employers with more than 50 contributing members, the Administering Authority would look for evidence of homogeneity between employers before considering grouping. For employers whose participation is for a fixed period grouping is unlikely to be permitted.

Again, consistent with the requirement to keep employer contribution rates as nearly constant as possible, the Administering Authority will consider, at each valuation, whether new contribution rates should be payable immediately, or

should be reached by a series of steps over future years. The Administering Authority will discuss with the Fund Actuary the risks inherent in such an approach, and will examine the financial impact and risks associated with each employer. The Administering Authority's policy is that in the normal course of events no more than three equal annual steps will be permitted. Further steps may be permitted in extreme cases, but the total is very unlikely to exceed six steps.

Identification of risks and counter measures

The Administering Authority's overall policy on risk is to identify all risks to the Fund and to consider the position both in aggregate and at an individual risk level. The Administering Authority will monitor the risks to the Fund, and will take appropriate action to limit the impact of these both before, and after, they emerge wherever possible. The main risks to the Fund are:

Demographic

The main risks include changing retirement patterns and longevity. The Administering Authority will ensure that the Fund Actuary investigates these matters at each valuation or, if appropriate, more frequently, and reports on developments. The Administering Authority will agree with the Fund Actuary any changes which are necessary to the assumptions underlying the measure of solvency to allow for observed or anticipated changes.

If significant demographic changes become apparent between valuations, the Administering Authority will notify all participating employers of the anticipated impact on costs that will emerge at the next valuation and will review the bonds that are in place for Transferee Admitted Bodies.

Regulatory

The risks relate to changes to regulations, National pension requirements or Inland Revenue rules. The Administering Authority will keep abreast of all proposed changes and, where possible, express their opinion during consultation periods after careful consideration. The Administering Authority's policy will be to ask the Fund Actuary to assess the impact on costs of any changes and, where these are likely to be significant, the Administering Authority will notify Employers of this likely impact and the timing of any change.

Governance

This covers the risk of unexpected structural changes in the Fund membership (for example the closure of an employer to new entrants or the large scale withdrawal or retirement of groups of staff), and the related risk of the Administering Authority not being made aware of such changes in a timely manner.

The Administering Authority's policy is to require regular communication between itself and employers, and to ensure regular reviews of such items as bond arrangements, financial standing of non-tax raising employers and funding levels.

Statistical/Financial

This covers such items such as the performances of markets, Fund investment managers, asset reallocation in volatile markets, pay and /or price inflation varying from anticipated levels or the effect of possible increases in employer contribution rate on service delivery and on Fund employers. The Administering Authority's policy will be to regularly assess such aspects to ensure that all assumptions used are still justified.

Solvency measure

The Administering Authority recognises that allowing for future investment returns in excess of those available on government bonds introduces an element of risk, in that those additional returns may not materialise. The Administering Authority's policy will be to monitor the underlying position assuming no such excess returns are achieved to ensure that the funding target remains realistic relative to the low risk position.

Smoothing

The Administering Authority recognises that utilisation of a smoothing adjustment in the solvency measurement introduces an element of risk, in that the smoothing adjustment may not provide a true measure of the underlying position. The Administering Authority's policy is to review the impact of this adjustment at each valuation to ensure that it remains within acceptable limits to ensure that it does not alter the disclosed solvency level by more than 5%.

Recovery period

The Administering Authority recognises that permitting surpluses or deficiencies to be eliminated over a recovery period rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements. The Administering Authority's policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the permitted length of recovery period to no longer than 30 years.

Stepping

The Administering Authority recognises that permitting contribution rate changes to be introduced by annual steps rather than immediately introduces a risk that action to restore solvency is insufficient in the early years of the process. The Administering Authority's policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the number of permitted steps to three annual steps or, in exceptional circumstances, to six annual steps.

Links to investment policy set out in the Statement of Investment Principles

The Authority has produced this Funding Strategy Statement having taken an overall view of the level of risk inherent in the investment policy set out in the Statement of Investment Principles and the funding policy set out in this Statement.

The Administering Authority will continue to review both documents to ensure that the overall risk profile remains appropriate including, where appropriate, asset liability modelling or other analysis techniques.

Future monitoring

The Administering Authority plans to formally review this Statement as part of the triennial valuation process unless circumstances arise which require earlier action.

The Administering Authority will monitor the funding position of the Fund on an approximate basis at regular intervals between valuations, and will discuss with the Actuary whether any significant changes have arisen that require action.



MEETING	DATE	ITEM
PENSIONS COMMITTEE	19 December 2006	7

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: 2005 – 2006 ANNUAL REPORT FOR THE MEMBERS OF THE PENSION FUND

SUMMARY

The Best Value Review of the Pension Fund recommended that an annual report on the Pension Fund be sent to all members of Havering's Local Government Pension Scheme. This report includes an attachment of the draft version of the annual report and seeks approval of its content and approval to send it to scheme members.

RECOMMENDATION

1. That the Committee approve the 2005-2006 annual pension report.
2. That the Committee agree that the 2005-2006 annual pension report be sent to scheme members with the Annual Benefit Statements.

REPORT DETAIL

1. At the then called Investment panel meeting, held on the 3rd April 2002, Members agreed the Best Value Review Action Plan. Under the heading 'monitoring' it was agreed that 'information should be provided on the pension fund to scheme members of the fund. Production of the booklet also complies

with 'The Myner's Report', recommended principle of best practice (on regular reporting) in managing Pension Fund investments.

2. The attached report will take the form of a short booklet to be included with the Annual Benefit Statements. It was produced by Corporate Finance (Pensions) in consultation with the Pensions Administration section.

Financial Implications and risks:

The estimated cost of the production of the booklets is approximately £1,000.00. This cost will be met from the Pension Fund.

Legal Implications and risks:

None arising directly

Human Resources Implications and risks:

No direct implications, however the forthcoming consultation at a National level on the forthcoming changes to the Local Government Pension Scheme Regulations may affect employee relations within the Council.

Equalities and Social Inclusion Implications and risks:

None arising directly

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

STEPHEN EVANS
Chief Executive

Background Papers List

2005/2006 Statement of accounts

Your Pension

*Report to Pensioners and
Contributors 2005 - 2006*



Introduction

The Council operates a Pension Fund on behalf of its employees and pensioners under the provisions of the Local Government Pension Acts and Regulations, for the purpose of providing pension benefits to, largely, the employees of the Council. The Fund provides retirement pensions and lump sum retirement grants, death grants and spouse's or civil partners' pensions. The Fund is financed by contributions from the Council, Council employees, other employers and members of the Fund, and by interest, dividends and other gains from investments.

Membership of the Fund

The membership of the Fund reported on the balance sheet as at 31 March 2006 was as follows:

31st March	2005	2006
Contributing employees	5,323	5,613
Pensioners	4,299	4,391
Deferred pensioners	2,357	2,580

All Council employees who are permanent or on a temporary contract (except teachers, who are entitled to be members of the Teachers Pension Scheme), automatically join the Fund from the first day of employment. Casual employees are eligible to join **but must complete a form to elect to join the scheme**. Any member of the scheme can opt out by completing the necessary form.

Contributions to the Fund

Employees who were members of the scheme prior to 31st March 1998 are required to make contributions by deductions from

earnings at the rate of 6% for salaried staff and 5% for manual workers. As from 1st April 1998, all new entrants to the Fund are required to pay 6% of earnings. The contributions enjoy full tax relief and, in addition, result in reduced National Insurance Contributions for the contributor. The Council is required to make balancing contributions determined by the Fund's actuary (Hewitt Bacon and Woodrow) to maintain the solvency of the Fund. The employers' contributions were 19.1% of salary in 2005/2006. The Council's annual contribution is reviewed every three years. The next review will take place as at 31st March 2007.

Investment Strategy

The Council has in place an Investment Strategy, which consists of two documents – The Statement of Investment Principles and the Funding Strategy Statement.

1. Statement of Investment Principles

The Local Government Pension Scheme regulations were updated with a requirement to prepare and publish a Statement of Investment Principles (SIP). This Statement sets out the Council's policy on a range of matters relating to the investments and management of the Pension Fund and is regularly reviewed and updated.

A report commissioned by the Government, 'The Myner's Report', recommended ten principles of best practice in managing Pension Fund investments. The Council's SIP outlines the Pension Fund's compliance with these principles.

2. Funding Strategy Statement

The Council also produces a Funding Strategy Statement which encompasses the aims and purposes of the fund, and the overall investment strategy.

The Council undertakes an annual review of the above statements and will consider any comments you may have for the next review due to take place in 2007.

The Council is also interested in members views on whether a website dedicated to the Pension Fund would be welcomed.

Please forward comments to the contact point designated at the back of the booklet.

Both of these statements have been published on the Council's website at www.havering.gov.uk (Under the section 'Council and democracy' then 'About council tax and our finances').

Governance Policy statement

The Local Government Pension Scheme regulations were updated with a requirement for the administering authority to prepare and publish a written statement covering governance policy.

This statement is available on the Council's website at www.havering.gov.uk (Under the section 'Council and democracy' then 'About council tax and our finances').

Management of the Fund

The overall direction of the Fund's Investment Strategy is delegated to the Council's Pensions Committee. The Pensions Committee also oversees the Fund's investment arrangements and each year, in line with regulations, publishes a Statement of Investment Principles (SIP) on the council's website.

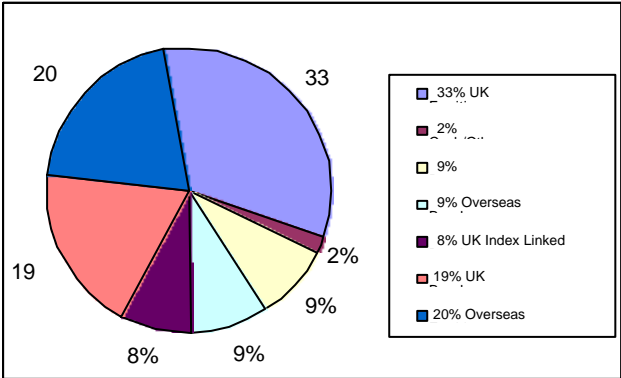
The Group Director Finance and Commercial supports the Pensions Committee and is responsible for the internal administration arrangements regarding monitoring of the external investment managers' transactions and is also responsible for pensions administration.

There was a major restructure of the investment management of the Fund during 2004/05. The then Investment Committee decided that Fund assets should be allocated to five separate mandates and has delegated the responsibility for the day to day investment of assets to five managers. Five new managers were appointed Standard Life Investments, Alliance Bernstein, UBS Global Asset Management, Western Asset Management (previously Citigroup) and Royal London Asset Management and commenced management in February 2005. The period 1st April 2005 to 31st March 2006 represents the first full year since the fund has been under the management of the new Managers

Investments

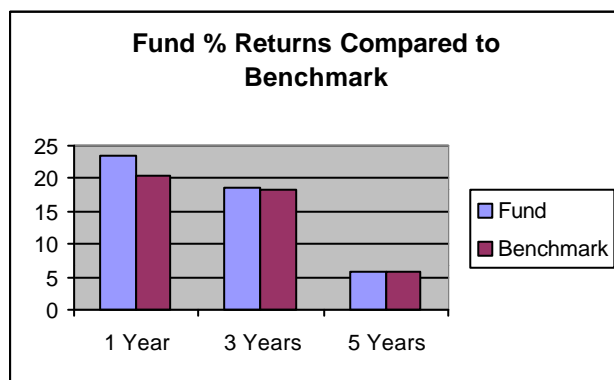
The market value of the investments as at 31st March 2006 rose by 23.5% to £340.9 million compared to 2004/2005.

The pie chart below shows the breakdown of the Pension Fund in terms of asset class.



Investment Performance

The Council uses The WM Company to monitor the investment performance of the Fund and the Fund Managers. Each fund manager is given a performance target to achieve, compared to a benchmark. The table below shows the fund's performance against the Tactical Benchmark, which is the combination of each manager's individual benchmark. The performance over one, three and five years against the benchmark is shown below.



The total fund return for the year to 31st March 2006 at 23.4% outperformed the Tactical Benchmark of 20.3% by 3.1%.

As the Fund has only been under its new arrangements since February 2005, historical performance greater than one year is no reflection of the new strategy.

The Fund's Bond and Property Managers outperformed their benchmark but with the continued improvement in stock markets

generally our Equity Managers delivered the best returns.

The performance of the Pension Fund Investments will not affect pension benefits to scheme members as benefits are guaranteed by Statutory Regulations irrespective of performance.

Extract of Accounts

An extract from the Pension fund Accounts is shown below:

Net Asset Statement

	31/03/05 £'000	31/03/06 £'000
Market value of investments	275,461	340,946
Current assets less liabilities	506	(110)
Net assets	275,967	340,836

Income and Expenditure Statement

	2004/2005 £'000	2005/2006 £'000
Income		
Employee contributions	4,513	4,932
Employer contributions	14,718	16,848
Transfer values received	3,495	3,504
Income from investments	7,518	9,624
Total	30,244	34,908
Expenditure		
Pensions and benefits	(17,894)	(19,235)
Transfer values paid	(5,560)	(4,496)
Administration expenses	(640)	(463)
Investment management Expenses	(1,159)	(1,181)
Total	(25,253)	(25,375)
Surplus available for investment	4,991	9,533

Change in market value of investments	18,459	55,336
Net increase/(decrease) in Fund	23,450	64,869

Note: Transfer values are received or paid when a contributor joins the Fund from another pension scheme, or leaves the LGPS and opts to transfer their pension in or out.

The audited accounts have been published and a full copy of the accounts is available on the Council’s web site at www.havering.gov.uk (Under section Council and democracy’ then ‘About council tax and our finances’).

PENSION ADMINISTRATION

The Council’s pension administration section is responsible for all aspects of scheme membership including payment of benefits, processing joiners and leavers, administering scheme member and employer contribution records and administration of the Council’s Additional Voluntary Contributions (AVC) scheme.

Communication Policy Statement

The Local Government Pension Scheme regulations were updated with a requirement for the administering authority to prepare and publish a written statement covering communications with members and employing authorities. This statement is available on the Council’s website at www.havering.gov.uk (Under section ‘Council and democracy’ then ‘About council tax and our finances’)

Whistle Blowing

The Investment Committee agreed arrangements to comply with the Whistle

Blowing Requirements of the Pensions Act on 7th June 2005. It urges anyone to inform the correct authorities of any known wrong doings. The report can be found on the Council's website at:

www.havering.gov.uk (Click on links as follows: 'Council and democracy', then 'Committee agendas and minutes' then 'Investment Committee minutes' then 7 June 2005 meeting/Item 7)

National Fraud Initiative

The Council actively participates in the Audit Commission National Fraud Initiative which identifies potential fraud via data matching information on the systems of various organisations including all local authorities.

FURTHER SCHEME DETAILS

The Local Government Pension Scheme (LGPS) is a final salary scheme with pension's payable being based on the best of the last three year's pay and the number of years of reckonable service. Pensions are increased annually in line with the Retail Price Index. The scheme also pays a death benefit in the form of a lump sum and a widow(er)'s pension to the spouse or civil partner of a member who dies in service. A dependant's pension is generally also paid to the spouse or civil partner of a member who dies after retirement.

On 30 June 2006, the Department for Communities and Local Government (DCLG) issued a consultation paper setting out possible options for a new look LGPS. It is expected that a formal consultation exercise on what the new scheme may contain will begin in November 2006, with the new scheme coming into force in April 2008. Up-to-date information about the Local Government Pension Scheme, its benefits and other general pension issues can be found on the website www.lge.org.uk

Contact points for further information:

Pensions' Administration

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Email:
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Pension Fund Investment (and comments on review of Investment Strategy Documents)

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Acting Pension Fund Accountant

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MEETING	DATE	ITEM
PENSIONS COMMITTEE	19 December 2006	8

REPORT OF THE CHIEF EXECUTIVE

**SUBJECT: NOTICE OF ANNUAL REVIEW OF THE PENSION FUND'S
COMMUNICATION AND GOVERNANCE POLICES**

SUMMARY

This report draws Members' attention to the Communication Strategy and Governance Policy for the Pension Fund. It also explains why a review is required and how this will be undertaken.

RECOMMENDATION

That the Committee note the existing Communication Strategy and Governance Policy.

That the Committee note that a review will take place during the forthcoming weeks, the results of which will be reported back to this Committee in March 2007.

That Committee members provide any comments on the current policy & strategy as necessary.

REPORT DETAIL

1. The London Borough of Havering as a Local Government Pension Scheme administrator has:

- A Communications Strategy - which sets out its communication strategy for communicating with members, including active, deferred and pensioner members, members' representatives, prospective members and employing authorities. This is attached as **Appendix A**.
 - A Governance Policy Statement - This covers the whole approach towards governance of Local Government Pension Scheme funds. This is attached as **Appendix B**.
- 1.1. The Committee must review and amend the above for a number of reasons including:
- It is good practice to review the above annually to ensure they are fit for the purpose and fully compliant and are up to date.
 - To ensure that all interested parties have had the opportunity to comment.
- 1.2 The Committee membership is new and part of the change involves ensuring all Members are fully trained and conversant with responsibilities. This should be complete by December 2006. In the meantime the policy and strategy are attached in order that Members become familiar with them and should note that all the Fund's stakeholders will be asked for comments and suggestions on any necessary changes.
- 1.3 The aim is that the review will take place by taking on board any comments provided by the above as well as discussing with Members any necessary or possible changes at the March 2007 meeting.

Financial Implications and risks:

There are no financial implications or risks arising directly from this report. The review will however ensure that the London Borough of Havering as the administering authority is compliant with regulations.

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

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STEPHEN EVANS
Chief Executive

Background Papers List

March 2006 version of Governance Policy Statement
March 2006 version of Communication Strategy

LB HAVERING PENSION FUND GOVERNANCE POLICY STATEMENT

Constitutional Arrangements

Under the Council's Constitution the terms and reference of the Pension Committee in relation to the Pension Fund are as follows:

- To consider and agree the investment strategy and statement of investment principles for the pension fund and subsequently monitor and review performance.
- Where appropriate and above staff delegation levels to recommend staff to invite tenders and award 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 set out in Sections 7, 12 or 24 of the Superannuation Act 1972.

Current Membership of the Pension Committee

The Pension Committee currently consists of six representatives listed below:

Conservative Group	Residents' Group
Melvin Wallace (Chairman) Roger Ramsey (V.Chairman) David Charles Mark Gadd	Clarence Barrett Linda Van den Hende

Three Members constitute a quorum.

The staff trade union may appoint two representatives, entitled to attend and speak at meetings of the Pension Committee. They possess no voting powers. These representatives are however entitled to remain within the Committee, should the public be excluded on the grounds that exempt information is to be considered.

Scheduled and admitted bodies are invited to attend meetings, though they have no voting, or vocal rights. At the end of each meeting they are informed of any major issues, and directed to the Agenda and minutes published on the Council's web-site.

Long membership of the Committee is encouraged in order to ensure that expertise is maintained within. There are current proposals to include in the constitution, the informal agreement between all parties, that all Members appointed to this Committee will serve a four year term

The Committee is supported by the Group Director of Finance and Commercial, Assistant Chief Executive Human Resources and the Assistant

Chief Executive Legal and Democratic Services. The Head of the Exchequer Services has the responsibility to administer the Council's pension fund.

Day to day management of the fund is delegated to the Head of Financial Services.

Training

Committee Members receive in depth training on a wide range of investment topics. Specific training is given on specific investment topics prior to any key decisions being taken. This approach ensures that important decisions are taken whilst training is still fresh in Members minds.

Whistle Blowing

The Pension Committee comply with the Whistle Blowing requirements of the Pension Act. 2004. It urges anyone to inform the correct authorities of any known wrong doings.

Diary

The Committee meets quarterly and occasionally holds extra meetings if required.

Further Trustee Responsibilities on Governance and Stewardship

Trustees are encouraged to look beyond administration procedures to really understand the key risks associated with all the functions and activities of the scheme. They are expected to consider risk management and stewardship in broad terms. Key risks include:

- Risk of fraud
- Corporate risk – risk of deterioration in the strength of employer covenant
- Funding and Investment risk – inappropriate investment strategies (one example of this could be risk of mismatch of assets and liabilities)
- Compliance of Regulatory risk – risk of failure to comply with scheme rules and legislation

The further practical steps undertaken to cover these risks are as follows:

- The Statement of Investment Principles includes procedures to undertake a risk management review, and ensures terms of reference of delegations cover all key responsibilities.
- There are codes of conduct in place which ensure there is a process in place that considers potential conflicts of interest, with clearly identified steps to mitigate the likelihood or protocols if conflict occurs.
- The Pension Committee periodically sets out a business plan for the year.

Reviewing and Updating

As well as undertaking an annual review the Council will review the policy as and when changes occur.



PENSION FUND

COMMUNICATION STRATEGY

London Borough of Havering
Communications Policy Statement
INTRODUCTION

An effective communications strategy is vital for any organisation which strives to provide a high quality and consistent service to its customers.

There are six distinct groups with whom the Fund needs to communicate:

- COMMITTEE MEMBERS
- SCHEME MEMBERS
- PROSPECTIVE SCHEME MEMBERS
- SCHEME EMPLOYERS
- INVESTMENT FUND MANAGERS
- OTHER BODIES

Set out in this document are the mechanisms which are used to meet those communication needs.

The Fund aims to use the most appropriate communication medium for the audiences receiving the information. This may involve using more than one method of communication.

INVESTMENT COMMITTEE MEMBERS

The Fund management and administration decisions have been delegated under the Council's constitution to the Investment Committee.

Knowledge building and training is provided via the Fund's Officers, advisors and external experts with regards to investment and administration matters

Admitted and Scheduled Bodies who have members in the Fund are invited to the Investment Committee meetings. as are the Trade Unions who attend all meetings on an observer basis, but whose views are given equal weighting. The Trade Union representatives are also Scheme members.

The work of the Trade Union members is supported by Trade Union representatives.

SCHEME MEMBERS

Internet

The Fund will establish an extensive intranet area containing Scheme details, Scheme leaflets etc. There will also be links to other organisations relevant to Scheme members, e.g. employers, AVC providers, employers' organisations etc.

Abridged Report and Accounts

An abridged copy of the Fund's Report and Accounts is circulated to all Scheme members on an annual basis.

Annual Newsletter

Newsletters are issued to members of the Fund, at least annually, the contents of which cover current pension topics within the LGPS, specific issues for Havering and the pensions industry in general.

Benefits Statements

An Annual Benefit Statement is sent direct to the home address of all members who are

contributing to the Fund at the previous financial year end.

Benefit Statements are sent direct to the home address of deferred members where a current address is known.

Scheme Literature

An extensive range of Scheme literature is produced by the Administering Authority and is supplied to employing bodies and Scheme members directly.

Pay Advices

The Fund only issues a pay advice to Scheme pensioners if their net pay varies by more than £1.00. This is utilised as a communication mechanism as well, e.g. Pensions Increase and P60 information is communicated using this medium on an annual basis.

Correspondence

The fund utilises both surface mail and e-mail to receive and send correspondence.

Existence Validation – Pensioners

The Fund undertakes an annual exercise conducted through correspondence in order to establish the continued existence of pensioners.

Telephone Help Line

It is intended to provide a dedicated help line for Scheme members and this will be widely publicised in Scheme literature.

Our Aspirations

A password security system which allows Scheme members to transact a significant proportion of their pensions business without having to enter into formal correspondence.

Pension Roadshow

The Fund stages Pensions Roadshows as and when required to communicate with scheme members on changes to the scheme or promote the scheme or specific aspects of it.

Additionally, Pensions Administration Staff attend Pre-retirement courses run by the Council to provide information to staff nearing retirement.

PROSPECTIVE SCHEME MEMBERS

Scheme Booklet

All new prospective Scheme members will be provided with a Scheme booklet upon appointment.

Intranet

The Fund's Intranet area will contain specific information for non-joiners. It will highlight the process by which a member should be given the relevant information to make an informed choice, as well as detailing the administrative process that should be followed to "opt out" of the Scheme.

Non Joiner Campaigns

The Fund will request formal notification of non-joiners from Scheme employers. The information will be used to market the Scheme to specific groups, with dedicated literature and campaigns being formulated in conjunction with Scheme employers from time to time.

Trade Unions

We will work with the relevant Trade Unions to ensure the Scheme is understood by all interested parties. Training days for branch officers will be provided upon request, and efforts will be made to ensure that all pension related issues are communicated effectively with the Trade Unions.

Pensions Roadshows

As well as being a valuable aid for pensioners and current scheme members, roadshows will be used to target specific non-members with support being enlisted from the DWP and in-house AVC providers. This will ensure members receive the information required to make an informed choice with regards to their pension provision.

Corporate Induction Courses

Fund Officers will attend corporate induction events in order to present to prospective Scheme members the benefits of joining the LGPS. A "one-on-one" surgery will also be offered to take account of individual queries that may be raised at such meetings.

SCHEME EMPLOYERS

Regular Updates

These are issued periodically to all employers. This medium is also used to communicate any issues that are currently under debate. Changes to the Regulations which impact upon the employer's function or their employees are also covered.

Employers' Guide

An Employers Guide is issued to assist the employers in discharging their pensions administration responsibilities. Officers are also available for advice.

This is supplemented by the allocation of a Senior Pensions Officer to non-Havering employers who is available by telephone or personal visit to assist whenever necessary.

Ill-health Retirements

"A Guidance Manual for Approved Doctors" will be circulated to appropriate employers within the Fund. This will be supplemented by organising one to one sessions as appropriate.

Internet

A microsite for employers will be established. All manuals and Scheme literature will be available on this site.

Site Meetings

Meetings with non-Havering Employers take place at their premises. Specifically this has been used as a mechanism for communicating major strategic issues, significant legislation changes and triennial valuation matters.

PENSIONS FUND AND ADMINISTRATION STAFF

Service Management Teams

The Fund is managed by Financial Services and administered by Exchequer Services whose Senior Officers report to the relevant Heads of Service

Team Meetings

Office and/or Team Meetings are held on a regular basis.

Group Management Team Meetings – Finance and Commercial.

The Heads of Service are members of the Groups Managements Team and attend the regular meetings convened by the Director. The Heads of Service are able to bring any matters of concern/importance to the attention of the Director through this mechanism.

Any necessary information arising from the Group's Management Team Meeting is disseminated within the Services, via Management Team and Team Briefing. Due to the nature of the investment work and delegation the Pensions Accountant meets with the Director a number of times during any week.

Issues Meetings

Monthly Issues Meetings take place between the Executive Director for Finance and Planning and the Pensions Accountant. These meetings review progress being made against annual Service Plans.

Monthly Issues Meetings take place between the Pensions Officer and Account Managers on a one-to-one basis.

Intranet

Service intranets give all staff access and contain such information as procedure manuals, core briefings, LGPC circulars etc. This is an effective mechanism for ensuring that information is available to all staff at their work location in a timely manner.

Induction.

All new members of staff undergo an induction procedure and an

induction/personnel manual is available to all staff.

The Council has introduced a performance appraisal scheme for staff which includes a process for discussing and reviewing personal development. This is supplemented by regular one to one meetings with all staff.

Internet

Appropriate staff have been enabled to use the corporate network in order to access the internet.

E-mails

All staff have been given access to the e-mail facility.

Pensions Manager

The Pensions Manager maintains an open-door policy and attempts to make themselves available to all staff.

Pension Fund Accountant

On a similar basis responds to staff and other enquiries.

INVESTMENT FUND MANAGERS

Day to day contact between the pension fund accountant and the fund managers is maintained. Each fund manager is required at the end of each quarter to alternatively present their performance to the Investment Committee or to officers including the Group Director Finance and Commercial, with the exception of the property fund manager who alternatively presents their information on a six monthly cycle.

OTHER BODIES

Trade Unions

Trade Unions in the London Borough of Havering are valuable ambassadors for the Pension Scheme. They ensure that details of the local Government Pensions Scheme's availability are brought to their members' attention and assist in negotiations under TUPE transfers in order to ensure, whenever possible, continued access to the Local Government Pension Scheme.

Seminars

Fund Officers regularly participate at seminars and conferences.

Data Protection

To protect any personal information held on computer, London Borough of Havering is registered under the Data Protection Act 1998. This allows members to check that their details held are accurate. The Fund may, if it chooses, pass certain details to a third party, if the third party is carrying out an administrative function of the Fund, for example, the Fund's AVC provider. Members who wish to apply to access their data on Data Protection Act grounds should contact the London Borough of Havering's Council's Data Protection Officer on 01708-432130.

This authority is under a duty to protect the public funds it administers, and to this end may use information for the prevention and detection of fraud. It may also share this information with other bodies administering public funds solely for these purposes.

Further Information

If you need more information about the Scheme you should contact the Pensions Administration Service at the following address:

Write to us at:
Pensions Service
4th Floor, Mercury House
Romford
RM4 3DS

Tel: 01708 432192/432981
Fax: 01708 432078
E-Mail: pensions@haverling.gov.uk
Web: www.haverling.gov.uk

There is also a number which you can dial direct and get through to the person dealing with individual cases. You will find this on any letter issued by the Fund.



MEETING	DATE	ITEM
PENSION COMMITTEE	19 December 2006	9

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: The admission of KGB cleaners to Havering's Pension Fund.

SUMMARY

This report recommends that the eight staff transferring under a TUPE arrangement from the Council to a private contractor (Catering for Education) are able to continue to be members (or have the right to membership) of the Local Government Pension Scheme (LGPS) by admitting Catering for Education to the London Borough of Havering's Pension Fund as an admitted body.

RECOMMENDATIONS

That Members consider whether to admit KGB cleaners to Havering's Pension Fund as an admitted body to enable those staff who transferred from the Council under TUPE to continue membership (or have the right to membership) of the LGPS (Local Government Pension Scheme) subject to;

- (a) All parties signing up to an Admission agreement and
- (b) An indemnity or insurance bond in an approved form with an authorised insurer or relevant institution, being put into place to protect the pension fund.

REPORT DETAIL

1. KGB cleaners succeeded in winning the contract to provide cleaning services to Abbs Cross School. The contract is for 2 years and commenced on 1st July 2005 replacing the previous cleaning arrangements which were provided by the School's own staff.
2. When the cleaning service transferred from the School's in-house team to KGB on 1st July 2005 - the contracts of employment of a number of employees were transferred from the School to KGB. The Transfer of Undertakings (Protection of Employment) Regulations ("TUPE") applied to the employment terms and conditions of the relevant employees except for pension rights. One of the employees concerned was a member of the LGPS.
3. Unfortunately Abbs Cross School did not involve the Council in the tender process at all and consequently the Council were unaware that the contract had been let. Abbs Cross school do not buy in to the Council's HR or Payroll service.
4. Subsequent to the letting of the contract, KGB contacted the Council and enquired about the possibility of Admitted Body status for the transferred employees. Specifically for the one employee who was in the LGPS at the date of transfer.
5. In accordance with Government policy for Local Government employers, KGB are encouraged to provide pension benefits for future service which are broadly comparable to those provided under the LGPS or to participate in the LGPS for the provision of pension benefits for the transferring employees.
6. KGB do not have a broadly comparable pension scheme and have applied to become an admitted body to Havering's Pension Fund, solely for the benefit of the transferred employees.
7. If agreed, KGB would be admitted to the pension scheme under a 'closed' agreement i.e. only those employees transferring at the time the contract is effective would be admitted to the scheme, any new or existing

employees of KGB whether they are working on the Abbs Cross School contract or not will not be eligible to join the pension scheme.

8. The Local Government Pension Scheme Regulations 1997 (As Amended) enable KGB to be admitted to the LGPS as a transferee admission body.
9. Admission of non-local authority employers to the LGPS takes place by the means of a formal, legal admission agreement drawn up between the interested parties. Under the terms of the regulations, the effect of such a step is that:-
 - (i) relevant employees of the admitted body can fully participate in the Scheme and so can be described as pensionable employees; and
 - (ii) the Regulations governing the Scheme treat the admitted body in exactly the same way as if it were a Scheme employer. For admission status and membership status to continue, the admitted body must adhere at all times to the Scheme regulations, including, of course, the specified terms of their individual admission agreements
10. To bring greater certainty and clarity to the formulation of admission agreements between all the parties, the regulations set out a number of mandatory matters of substance which must, therefore, be included in each admission agreement prepared under the Regulations.
11. An admission body as defined by the regulations must secure an actuarially appropriate level of indemnity, or bond, in an approved form so as to be able, as required by Regulations to satisfy the relevant administering authority (The Council). The collective purpose of these particular requirements is to protect LGPS pension funds from risk of any permanent financial loss and to guard against any deficiencies or shortfalls in the event of insolvency, or from any default by a contractor in the payment of contributions due to pension funds as may be determined by an actuary.
12. The Pension Fund's actuary has assessed the level of indemnity bond required (£8,700) although the exact arrangements for the bond cover would have to be finalised and therefore the recommendation in the report is made on the condition that suitable arrangements agreeable to all parties, and in compliance with the Regulations, can be put into place.

Financial Implications

The Contribution rate set by the Actuary for the membership involved in the contract is 17.5% of pensionable pay. This is calculated on the basis that no new employees will be admitted to the Fund. This contribution rate is lower than the rate for Council employees, 20.3%, as it reflects future service only. The deficiency that has built up in the Pension Fund remains with the Fund and does not transfer to the contractor.

The Actuary has assessed the level of indemnity bond cover required in respect of this contract assuming that it is not open to new entrants. The objective of the bond is to make good the funding position of the scheme if the contractor defaults on his obligations under the agreement, such as meeting the costs of early payment of pensions on redundancy for the over fifties or early retirement. This could occur at the end of the contract term or at some mid point if the contractor, say, goes into liquidation.

The initial level of the bond cover is being set at £8,700. If the contract is renewed this will be reviewed as part of the triennial valuation or more frequently if required.

It is essential that the cover level be reviewed regularly, and that it is made clear to the new body that this will occur and that further finance may be required. This will be included in the Admission Agreement.

There is also the risk that there may be a deficiency when the admission agreement is terminated. This risk is managed by the closure valuation and associated certificate, which will be included in the admission agreement. KGB will be required under the agreement terms to make good the deficiency.

HR Implications

The continued admission of these staff in the LGPS gives them ongoing equality of pension provision with Council employees.

Legal Implications

Where staff transfer from the public sector, the Cabinet Office, Statement of Practice (January 2000) requires 'broadly comparable' pension provisions to be made, by the recipient-contractor, for the staff who transfer. Granting admission body status to KGB will enable this requirement to be met.

The Local Government Pensions Scheme Regulations (as amended) require an admission agreement to be entered into where admission body status is granted to an 'external' body. In dealing with the admission agreement the Assistant Chief Executive – Legal and Democratic Services will address the question of whether Abbs Cross School, as well as KGB, should be made a party to the Admission Agreement. As set out, within the body of the report, KGB will be required to provide a bond.

To comply with the requirements of the Local Government Pension Scheme Regulations 1997 (as amended), the Commissioner for Inland Revenue and the Secretary of State must be notified, within the required time periods, that the Council - as the 'Administering Authority' for the Havering pension fund - has entered into an admission agreement with KGB.

Reasons for the decision:

Government guidelines are that staff transferring under a TUPE arrangement should, where possible, have their pension rights protected.

Staff Contact: Jeff Potter
Telephone: 01708-434139

STEPHEN EVANS
Chief Executive

Background Papers

The Pension Implications of Transferring Employees to an External Provider
(Information guide issued by the Employers
Organisation)

The Local Government Pension Scheme Regulations 1997 (As Amended) and
the Guidance notes issued with them



MEETING	DATE	ITEM
PENSION COMMITTEE	19 December 2006	10

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: EARLY TERMINATION OF EMPLOYMENT

SUMMARY

This report considers the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006 and reviews the Council's discretionary policy on early termination payments where employment is terminated ;

- by reason of redundancy or
- in the interests of the efficient exercise of the employing authority's functions,

RECOMMENDATION

1. To note that the Council has to review its current policy on early termination of employment because of changes to the legislation governing such compensation
2. To consider, agree and publish the Council's Policy on Early Termination of Employment to effect the following changes from 1st February 2007 (Appendix B):
 - for staff aged under 50: payment according to the statutory redundancy entitlement based upon actual earnings;
 - for staff aged over 50 who are not in the Local Government Pension Scheme: payment according to the statutory redundancy entitlement based upon actual earnings;
 - for temporary staff: payment according to the statutory redundancy entitlement based upon actual earnings;

- for staff aged over 50 who are in the Local Government Pension Scheme: payment according to the statutory redundancy entitlement based upon actual earnings and payment of immediate pension benefits. For those receiving immediate pension benefits, the redundancy payment is subject to the current cap of £37,399.71. This cap to be uprated each year in accordance with the JNC pay award; and
- that staff retired on efficiency grounds who are in the Local Government Pension Scheme and over 50 can be offered payment of immediate pension benefits.
- that the discretionary award of compensatory added years for employees over 50 in the Local Government Pension Scheme be withdrawn.

REPORT DETAIL

1. The Council's current policy relating to early termination of employment on the grounds of redundancy or in the interests of the efficient exercise of the Council's functions was produced as a result of the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000. The policy is attached at Appendix A.
2. The Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006 replace the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000.
3. The new regulations set out to ensure that the discretionary powers to award compensation to local authority staff whose employment is terminated early will meet the requirements of the European Employment Directive. The regulations are backdated and come into force on 1 October 2006, corresponding with the Employment Equality (Age) Regulations 2006.
4. The new regulations have the effect of providing local government employers with discretionary powers to award employees a one-off lump sum of up to two years pay where employment is terminated early. The new regulations do not provide for the award of a credited period (commonly referred to as "added years").
5. By virtue of this Regulation employers have the discretion to remove the weekly pay ceiling placed on the payment of a redundancy payment under the Employment Rights Act 1996.
6. Each authority is required to formulate, publish and keep under review their policies on compensation. In formulating and reviewing their policies, authorities must have regard to the extent to which the exercise of their discretionary powers, unless properly limited, could lead to a serious loss of confidence in the public service and ensure that they are workable, affordable and reasonable, having regard to costs.
7. In order to comply with the new regulations it has been necessary to revise the Council's policy and remove the option for the discretionary award of added

years. The new policy is attached at Appendix B. The paragraphs in the old policy relating to the 'Effect of New Employment on Compensatory Added Years', 'Awards to Surviving Spouses' and 'Payment of Children's Compensation' have all been deleted as they no longer apply as there are no compensatory added years payments under the 2006 Regulations. There is still a general power under regulation 52 of the Local Government Pension Regulations 1997 to award added years.

8. The regulations require that any new policy must be published at least one month before it comes into effect and consequently the proposed effective date of the policy is 1st February 2007.
9. It is possible that the Council may wish to take the opportunity to review its policy again when it had the chance to consider the new regulations, specifically the discretion within the regulations to award a lump sum up to two years salary, further but the urgent need is to ensure that the Council is not contravening the new regulations.

Human Resource Implications

It is important that the Council takes an early review on whether or not to apply the discretion to award a lump sum of up to 2 years pay and in what circumstances. This will include consultations with appropriate trade unions.

Legal Implications

The Local Authorities (Functions and Responsibilities) (England) Regulations 2000 make decisions on severance a non-Executive function. The Constitution allocates these powers to the Council's Pensions Committee.

Local Authorities have a duty to formulate and publish a policy on the way they will exercise their discretionary powers under the 2006 Regulations. They must keep the policy under review and if they decide to change it they must publish a statement of the amended policy within one month of the date of their decision. The change will take effect one month after that. The revised policy complies with the requirements of the 2006 Regulations.

The Council's ability to award added years is not totally repealed. The general provision in Regulation 52 of the Local Government Pension Regulations 1997 remains, but it is a totally discretionary power and does not have to be exercised by the Council.

Financial Implications:

The financial implications are not easily quantifiable as the Authority will not be able to assess the actual savings until the specific situations arise. Budget

provision is made for specific corporate proposals which may result in redundancy /early retirement but there is no general corporate budget provision for redundancy/early retirement. Any changes that therefore result in severance costs have to be met by the service on the understanding that such changes should also result in savings over the course of time. The proposals set out in this report will reduce the level of costs resulting from any severance arrangements.

Staff Contact: **Jeff Potter**
Title: **Head of Exchequer Services**
Telephone: **01708 434139**

STEPHEN EVANS
Chief Executive

Background Papers

The Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006



**The Local Government (Early Termination Of Employment)
(Discretionary Compensation) (England And Wales) Regulations 2000
Statement of Policy
(Published February 2006, effective from 1st April 2006)**

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

Increase of Statutory Redundancy Payments

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

Compensation for Redundancy: General

Employees whose employment is terminated by reason of redundancy will be paid according to the statutory redundancy table based on actual pay. Those who receive immediate pension benefits will have their redundancy payment capped at a maximum of £35,335.75 (current figure, this increases annually in line with JNC pay awards).

Added Pension Years Award for those aged 50 and over

Employees aged 50 or over who are members of the LGPS and whose employment is terminated by reason of redundancy or in the interests of the efficient exercise of the authority's functions will be eligible for immediate payment of pension benefits and the possible award of up to 6 2/3 compensatory added years. These additional compensatory years will be awarded at the discretion of the Council, exercised by a Pensions Panel.

Effect of New Employment on Compensatory Added Years

If a member who has been awarded a period of compensatory added years re-enters LGPS employment the pension in respect of those compensatory added years will be abated or reduced by such amount as is necessary to ensure that the member is no better off than if they had remained in their previous job. This abatement or reduction occurs upon ceasing the new employment.

Once the member ceases the new employment the compensatory added years pension will be reduced, if necessary, to ensure that the sum of: (1) their LGPS membership + (2) the compensatory added years awarded + (3) the LGPS membership or assumed membership in the new employment (whether or not they join the LGPS is irrelevant): does not exceed the total membership which they would have accrued had they continued in their original LGPS employment until age 65.

Awards to Surviving Spouses

If there is more than one surviving spouse, they become jointly entitled to the surviving spouse's compensatory added years pension, receiving equal shares. In the case of the spouse of a member who ceased employment before 1st April 1998, where the spouse re-marries or co-habits on or after 1st April 1998 the compensatory added years pension should not be suspended and should continue to be paid.

Payment of Children's Compensation

If there is more than one eligible child then the children's compensation will be apportioned equally amongst the eligible children. Where there is a surviving spouse the children's compensation will usually be paid to them for the benefit of the eligible children. The meaning of "eligible child" is the same as in regulation 44 of the Pension Regulations.

APPENDIX B



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

Statement of Policy

(Published December 2006, effective from 1st February 2007)

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

Increase of Statutory Redundancy Payments

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

Compensation for Redundancy: General

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

Added Pension Years Award for those aged 50 and over

Employees aged 50 or over who are members of the LGPS and whose employment is terminated by reason of redundancy or in the interests of the efficient exercise of the authority's functions will be eligible for immediate payment of pension benefits. The Local Government (Early Termination Of Employment) (Discretionary Compensation) (England And Wales) Regulations 2006 do not provide for the award of compensatory added years.



MEETING	DATE	ITEM
PENSIONS COMMITTEE	19 DECEMBER 2006	11

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: REVIEW OF THE ACTUARY

SUMMARY

This report reviews the performance of the Actuary in the last calendar year.

RECOMMENDATION

It is recommended that the Committee: -

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

REPORT DETAIL

1 BACKGROUND

- 1.1 At its meeting of 3rd February 2004, the Investment Committee appointed Hewitt Bacon and Woodrow to provide actuarial services to Havering in respect of the Pension Fund following a competitive tender process. HBW were appointed for the period from 1st April 2004 to 31st March 2010.

2 REVIEW OF THE PERFORMANCE OF THE ACTUARY

- 2.1 The production of the triannual valuation is the key deliverable from the Actuary along with regular funding updates and annual calculations required for the Council's statement of accounts under the Local Authority Statement of

Recommended Practices. The Actuary is also required to provide advice regarding changes in legislation within the Pension Fund arena.

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

- Expertise and skills
- Specific LGPS experience
- Service delivery
- Quality of management and information
- Approach to partnership working

2.2 Since their appointment, the Actuary has attended Investment committee and officer level meetings. They have undertaken the triannual valuation and have also been on hand to assist with other issues as they have arisen e.g. Pension Fund revocation. Members received a report at 20th December 2005, which advised there were no issues to raise.

2.3 A review of performance for 2006 on the specific points above is set out below:

CRITERIA	ASSESSMENT
Expertise & Skills	There have been no issues or concerns with regard to this.
Specific LGPS experience	Excellent
Service Delivery	Response times are excellent as is the service.
Quality of management and information	Excellent
Approach to partnership working	Work closely with Havering supporting and advising

2.4 **Cost of the Service**

The cost of the actuarial services for the year to March 2006 was £53k. Fees are charged for the time spent on services, taking into consideration the complexity of the service provided, and the level of staff skill and expertise required. As at 31st October 2006, payments for services during 2006/07 totalled £29k, which includes the work and advice on proposed changes to the LGPS. Some costs are recharged and, hence, this is not all borne by the Pension Fund.

2.5 **Conclusion**

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

Financial Implications

None arising directly from this report

Legal Implications

None arising directly from this report

Human Resource Implications

None arising directly from this report

Reasons for the Decision:

Regular review by client is best practice and expected under the Procurement Framework.

Alternative Options Considered:

None.

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STEPHEN EVANS
Chief Executive

Background Papers

Working papers held within Corporate Finance
Appointment of Actuary



MEETING	DATE	ITEM
PENSIONS COMMITTEE	19 December 2006	12

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: APPOINTMENT OF THE INVESTMENT ADVISER TO THE PENSION FUND

SUMMARY

This report sets out the process which has been followed for the appointment of an investment advisor to the Pension Fund for the period commencing 1 April 2007 and seeks to make a formal approval of the contract with effect from that date.

RECOMMENDATION

It is recommended that the Committee formally award the new contract for the provision of investment advice services to the Pension Fund to the highest scoring tenderer as identified in the exempt report. The contract is to run from 1 April 2007 until 31 March 2010 unless terminated or extended by the Council in accordance with the terms of the contract.

REPORT DETAIL

1 BACKGROUND

- 1.1 At its meeting of 23 September 2003, the Investment Committee appointed PSolve to provide investment advisory services to the Havering Pension Fund following a competitive tender process. PSolve were appointed for the period from 1 September 2003 to 31 March 2007. On 20 December 2005 the Investment

Committee approved the re-tendering process of the contract for the investment advisor with the new contract commencing on 1 April 2007.

- 1.2 The process for the selection and appointments of the Investment Advisor has been carried out in accordance with Contract Procedure Rules. The first stage was to invite organisations to express an interest in providing the investment advice service. Following an evaluation of the expressions of interest, four companies were invited to submit a tender to provide an investment advice service to the Fund.
- 1.3 All four companies submitted tenders and an initial assessment was carried out by Financial Services staff based upon the agreed criteria set out in the table below. Three of these organisations were invited to make a formal presentation to the Special Pensions Committee on 5 December 2006 with a view to a final selection being made. The fourth company was not invited to proceed further because they had submitted a non compliant bid.
- 1.6 The Special Pensions Committee considered the results of the initial tender evaluation exercise and the presentations made by the three bidders on 5 December 2006 before reaching a decision. Using criteria set out in the table below the Committee made a final evaluation of the bids.
- 1.7. The assessment criteria and relative weightings used to determine the successful bid are set out below. The results of the tender evaluation, measured against the assessment criteria, are included in the exempt agenda item – appendix 1. They include both the initial officer evaluation and the final committee scores. The Committee is reminded that a weighting of 60 % was given to quality and 40% to price.

CRITERIA (quality) = 60% overall	%
EXPERTISE AND SKILLS	26%
KNOWLEDGE OF PENSION FUND MANAGEMENT AND ADMINISTRATION	25%
DEMONSTRATABLE EXPERIENCE OF LOCAL GOVERNMENT PENSION SCHEME	24%
ABILITY TO COMMUNICATE EFFECTIVELY	15%
QUALITY OF MANAGEMENT INFORMATION	10%
SCORE FOR QUALITY (A)	100%

CRITERIA (Price) =40% overall	Range	%
Proposals likely to exceed expectation	Bid <75% of current budget	100
Proposals likely to meet best expectation	Bid<85% of current budget	75
Proposals likely to meet lowest expectation	Bid>95% <105% of current budget	50
Significant reservations, but not sufficient to warrant exclusion of bid	Bid>133% of current budget	25
Not acceptable	Bid>166% of current budget	0

Financial Implications and risks

The costs of the Investment Advisor are charged to the Pension Fund. Costs may vary where the advisor recommends a change of strategy or selection of a new fund manager. These costs will need to be considered against the potential benefits of proposals brought to the Committee for consideration.

The process of selecting an Investment Advisor was risk assessed at the outset. The assessment was included in the Council's risk register and was used to inform the procurement programme. Measures were adopted in order to minimise these risks and to ensure a successful outcome of the project.

Legal Implications and risks

A contract, reflecting the agreement between the successful bidder and the Council will need to be drawn up and executed, as a sealed document, in accordance with Contract Procedure Rules.

Human Resource Implications and risks

None arising directly from this report.

Equalities Implications

None arising directly from this report.

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STEPHEN EVANS
Chief Executive

Background Papers

Principles for Investment Decision Making in the Local Government Pension Scheme in the UK” - Published by CIPFA
Item 25 Investment Committee meeting 20th December 2005- Review of the Investment Adviser



MEETING	DATE	ITEM
PENSIONS COMMITTEE	19 December 2006	13

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: REVIEW OF THE INVESTMENT ADVISER

SUMMARY

This report reviews the performance of the Investment Adviser, Psolve, since the last review in December 2005.

RECOMMENDATION

It is recommended that the Committee: -

- Notes the views of officers on the performance of the Investment Adviser and makes any comment on the report which it considers appropriate.
- That the current contract expires on 31 March 2007 and that a re-tendering exercise has been conducted to ensure continuity of service and the achievement of best value is noted.
- To note that the decision on the award of the new contract is the subject of a separate report to this Committee.

REPORT DETAIL

1 BACKGROUND

- 1.1 At its meeting of 23 September 2003, the Investment Committee appointed PSolve to provide investment advisory services to the Havering Pension Fund following a competitive tender process. Psolve were appointed for the period from September 2003 to March 2007. The contract can be terminated or extended by the Council, following a review of the service provided. On 20 December 2005 the

Investment Committee approved the re-tendering process of the contract for the investment advisor with the new contract commencing on 1 April 2007.

- 1.2 A Special Pensions Committee met on the 5 December 2006 in order to consider presentations from tenderers for the new investment advisor contract which will commence on 1 April 2007. The results of that meeting are the subject of a separate report
- 1.3 At the time of the appointment of PSolve it was recognised that Members of the Investment Committee should receive an annual report on the performance of the Investment Adviser. This is in line with Myner's Principle 8 on performance measurement, which states that trustees should arrange for a formal assessment of performance of advisers.
- 1.4 The last formal assessment by the Investment Committee was in December 2005.

2. REVIEW OF THE INVESTMENT ADVISER'S PERFORMANCE

- 2.1 The advice services provided by Psolve over the past 12 months were generally in relation to the core service, which includes quarterly monitoring and reporting, SIP annual review, accounts, annual investment review, forward looking business planning and training.
- 2.2 During the earlier stages of the contract Psolve provided specific advice and support on the restructuring of investment management of the Fund including the management of the tender processes for appointment of Global Custodians, Investment Managers and a Transition Manager. They provided advice to the Committee and officers both in the selection of Investment Managers for the new mandates and during the transition process.
- 2.3 Since their appointment, the Investment Adviser has attended Investment Committee (now the Pensions Committee) and officer level meetings.
- 2.4 The Best Value Review into the Pension Fund recommended that an Investment Adviser to the Pension Fund be appointed as it accords with best practice and the Myner's Principles for managing Pension Funds. In making this recommendation the report outlined four criteria for an Investment Adviser, these were: -
 - What is important to the Authority
 - The level of proactivity expected from the Adviser
 - The value they will/could add to the process
 - Support arrangements

In addition, to the above criteria officers selected other criteria, which they believed are essential in a service such as investment advice – these were:

- A prompt and responsive service

- Good communication
- The provision of advice to officers and members on options and the way forward
- A partnership approach to reaching investment decisions

2.5 The Investment Adviser's performance has been reviewed using the above criteria, with the last two being implicit in all of the criteria, and also the more specific criteria defined in the invitation to tender documentation. The results of the review of performance over the past year are set out in the following table and have been discussed with the advisor:

CRITERIA	ASSESSMENT
What is important to the Authority	<p>It is important that the Pensions Committee and officers receive expert advice on investment issues and how they affect the Local Government Pension Scheme. It is also important that a steer is given to investment decision making.</p> <p>The adviser has provided valuable advice and guidance at the meetings of the Pensions Committee. The advisor has also provided useful information and advice to officers.</p>

CRITERIA	ASSESSMENT
The level of pro-activity expected from the Adviser	The adviser has generally offered advice and guidance.
The value they will/could add to the decision making process	The have taken an active role at Pension Committee meetings and challenged the performance of the fund managers on behalf of the committee.
Support arrangements	Generally the support arrangements in place are good. The support provided when the Principal Advisor is unavailable has improved.
Prompt and responsive service	<p>Response to officer queries has generally been good although it has been necessary for officers to meet with the advisor in order to clarify service level requirements.</p> <p>Officers had queried the level of training being provided under the core contract. Psolve have since carried out a series of training sessions for members prior to the quarterly meetings. The September training session was delayed and some members were unable to attend the briefing.</p>

Good communication	The communication with the Adviser is good. Reports are well structured and easy to understand. Whilst accepting personal style, presentations to Committee could be improved.
Appointing Investment Manager(s)	Psolve co-ordinated the initial tender process for the investment managers. No appointments were made during the last 12 months
Monitoring of the Investment Managers	Every quarter Psolve produce a report on the performance of the Investment Managers. They have also attended the Pension Committee meetings to discuss performance issues, and questioned the investment managers on their performance. Some reconciliation differences have arisen between fund managers and Advisors reports. The reasons for these differences are now better understood and have been minimised through improved timetabling.

3. Cost of the Service

- 3.1 The cost of Investment Adviser services for the year to August 2006 was £48,740.84. The annual fee for the core service is £46,305 per annum (with effect from 1 April 2006) based upon the current structure of five Investment Managers.
- 3.2 The cost of the service, whilst it might appear substantial, should be viewed against the cost of underperformance of the pension fund investments and that PSolve were appointed competitively and were the second cheapest. For example, an underperformance of 1% against the Fund benchmark equates to £3.3m. In addition, Myner's principle 4 on expert advice states that "the fund should be prepared to pay sufficient fees" for expert advice. Officers are of the view that progress would not have been made as promptly nor would the work have been based on such thorough and investment aware information.
- 3.3 During the course of the contract The Council has challenged some of the invoices, having the view that some items have been part of the core services. Discussions took place between officers and the advisor in order to clarify the position and these matters were resolved.

4. Conclusion

Officers are satisfied with the service provided by PSolve and have confidence in the advice being given.

Financial Implications and risks

There are no financial implications or risks arising directly from this report. The costs of the Investment Advisor are met from the Pension Fund.

Legal Implications and risks

None arising on performance as the comments on the investment advisor's performance are believed to be fair and have been taken on board.

Human Resource Implications and risks

The Committee has within its terms of reference power to appoint advisors. The current contract expires on 31 March 2007.

Equalities Implications

None

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STEPHEN EVANS
Chief Executive

Background Papers

Working papers held within Corporate Finance

Principles for Investment Decision Making in the Local Government Pension Scheme in the UK" - Published by CIPFA

Items 6 and E1 Investment Committee meeting 23 September 2003 - Appointment of Investment Adviser

Item E3 Investment Committee meeting 28 September 2004- Review of the Investment Adviser

Item 25 Investment Committee meeting 20 December 2005- Review of the Investment Adviser