



Havering

LONDON BOROUGH

PENSIONS COMMITTEE

AGENDA

7.30pm

Tuesday,
19 May 2009

Havering Town Hall,
Main Road, Romford

Members 7: Quorum 3

COUNCILLORS:

Conservative Group

(4)

Melvin Wallace - (V. Chairman)
Robby Misir (Chairman)
Robbie Benham

Residents' Group

(2)

Clarence Barrett
Linda van den Hende

Independent

Residents (1)

Jeffrey Tucker

Trade Union Observers

(No Voting Rights)

(2)

Brian Long (Unison)
Sean Ramsden (TGWU)

Admitted / Scheduled Bodies Representative

(No Voting Rights)

(1)

David Holmes

For information about the meeting please contact:

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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

To approve as a correct record the minutes of the meeting held on 17 March 2009 and authorise the Chairman to sign them

5. PENSION FUND OVERVIEW – FOLLOW UP – report attached**6. FLEXIBLE RETIREMENT AND OTHER DISCRETIONS WITHIN THE LOCAL GOVERNMENT PENSION SCHEME (LGPS) – report attached****7. URGENT BUSINESS**

To consider any other item in respect of which the Chairman is of the opinion, by reason of special circumstances which shall be specific in the minutes that the item should be considered at the meeting as a matter of urgency.

Cheryl Coppel
Chief Executive

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

17 March 2009 (7.30pm – 10.05pm)

Present:

COUNCILLORS

Conservative Group Melvyn Wallace (in the Chair), Robert Benham,
*Steven Kelly and Roger Ramsey.

Residents' Group Clarence Barrett and #Ray Morgon

Independent Residents Jeffrey Tucker

Apologies for absence were received from Councillors Linda Van den Hende and Robbie Misir, Brian Long and David Holmes.

#substitute member: Councillor Ray Morgon (for Linda Van den Hende)

*substitute member: Councillor Steven Kelly (for Robbie Misir)

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

There were no declarations of interest.

32. MINUTES

The minutes of the Committee meeting held on 16 December 2008 and the Special meeting held on 10 February 2009 were agreed as a correct record, and signed by the Chairman.

33. PENSION FUND: 2008/9 AUDIT PLAN

Representatives of Price Waterhouse Coopers (PWC) the recently appointed External Auditors presented their plan for the audit of the Havering Pension Fund, This was the first time a separate Plan for the audit of the Pension Fund had been prepared. However, the increased interest in Pension matters, the scale of the assets and liabilities involved and the level of risk relating to pension accounts all demonstrated why a greater focus on the Fund was timely.

PWC had carried out a risk assessment which had identified the following:

1. Business Risks
 - Valuation of Pension Fund
 - Valuation of Investments

2. Other risks

- Reliance on controls within asset managers
- New Pension Statement of Recommended Practice (SORP)
- The Local Government Pension Scheme (Administration) Regulations 2008
- Changes to the Pension schemes and fund administration.

In response to questions from the Committee PWC confirmed that they would be reviewing the assumptions which underpinned the actuarial valuation rather than reviewing the actual valuation. They also confirmed that they would not be seeking a separate actuarial valuation.

The Council were working jointly with the London Borough of Redbridge on the administration of the Pension Fund. In the event of any issues affecting both authorities they would be raised with both Councils.

The Pension Fund accounts were legally part of the Local Authority accounts and therefore needed to be signed off by the Audit Committee. The Audit Committee was scheduled to meet on 15 September with Pensions Committee meeting on 30 September, it may therefore be necessary to call a special joint meeting of the two committees to arrange approval and sign off.

The Committee **noted** the report.

34. PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 31 DECEMBER 2008

a) Hymans Robertson Presentation.

Hymans Robertson (HR) presented their review of the Investment Managers' Performance for fourth quarter of 2008. Quarter 4 had started with the dramatic and frightening prospect of multiple bank failures. A number of major institutions failed whilst others owed their survival to government intervention.

The banking crisis was accompanied by a sharp deterioration in global economic prospects. Forecasts of economic growth were revised downwards, resulting in a collapse of confidence in all financial centres.

By the end of 2008, Japan and Euro-zone were already in recession, available evidence indicated that the UK and US economies were also in recession. Despite the measures taken by governments, it was by no means clear that the worst of the global economic difficulties are over. The reluctance of the banks to extend credit remained a problem and acted as a severe impediment to economic recovery. 2009 would be challenging.

Equities had fallen 15% since the end of the year.

The portfolio summary reflected a difficult year with only one fund manager actually managing to grow their portfolio. The good news was that the

Committee's decision to retain cash, intended to be passed to the Funds Global Equities Manager for investment, meant that the value of the cash held as an asset had increased, rather than fallen.

The individual performance of the four Fund Manager's was disappointing with none of them reaching benchmark over the previous 3 months, over the last year, over the last three years and since inception.

b) UK Equities Manager (Standard Life)

HR informed the Committee that Standard Life's investment in the banking sector was a major contributor to their under performance.

Representatives from Standard Life presented their Quarter 4 report to the Committee. They explained that the market was facing extremely challenging market conditions, the UK market had fallen over 30%, the FTSE index was lower than 12 years ago and volatility was at a record high. The market was also facing a global financial crisis, macro economic concerns, financial uncertainty and technical distress. The key drivers were sentiment and risk. They still had confidence to deliver over the long term and felt that the financial and technical dislocation provided performance opportunities and required a disciplined investment process.

The collapse in confidence in September/October had lead to major hits on the banks. In answer to questions from the Committee they defended their position with regard to the overweight position in financials and continued to maintain a strong position maintaining that banks have high capital ratios and, provided that the toxic debts are underwritten, in the long term they provide good value. The investment is in different banks to that previously owned. Publicity in respect of legal action against banks was discussed and it was agreed to monitor the situation.

c) Investment Grade Bond Manager (Royal London)

HR informed the Committee that Royal London had performed well in gilts, under performed in Corporate Bonds and were under weight in supranational bonds.

Representatives from Royal London presented their Quarter 4 report to the Committee. They advised the Committee that since they had agreed to vary the parameters under which they operate, on the Pension Funds behalf, they had not been forced to sell at least five bonds which had been downgraded.

They took confidence from the Governments decision not to fully nationalise the banks; the introduction of the Asset Protection funds and now quantitative easing.

The Royal London representatives answered all the questions asked by the committee with confidence.

HR felt Royal London were a credible team, acutely aware of the market and they were reasonably assured by their presentation.

d) Global Equities Manager (Alliance Bernstein).

HR expressed the view that whilst Alliance Bernstein's under performance had been considerably poor they advised the Committee that they continue to have confidence in the current management structure and will continue to keep them under close review.

e) Miscellaneous.

The Committee **noted** that neither Investment Manager had declared any governance issues or whistle blowing reports.

The Committee **noted** that in January State Street's credit rating had been down graded to AA- and they were put on a negative watch. As a result, in February, officers had withdrawn £3.8m in cash and placed this on deposit with the Treasury's Debt Management Board. At the time of the meeting the negative watch had been removed from State Street.

The Committee were advised that credit checks were undertaken on our Fund Managers by our Business Development Unit, the outcome of which meant that they have been categorised as a high risk. Officers advised that whilst the funds assets were safeguarded as ownership was with the Havering Pension fund (held in trust via State Street), the risk to the Fund would be the costs involved in finding a replacement Fund Manager should any of the companies fail and there may be a dip in performance if key personnel left the companies due to its instability.

The Committee noted that in February the Department for Communities and Local Government issued a consultation paper on the proposed revised Investment Regulations, this primarily was to consolidate the 1998 regulations. However, the consultation paper included provisions requiring the Council to establish a separate bank account for the pension fund. Additionally the Pension Fund would no longer be able to give funds to the Council to invest on its behalf. Officers advised the Committee that when necessary the Council would begin preparations to incorporate the new requirements.

The Committee **noted** the Hymans Robertson would be updating the committee on the directional changes in the target asset allocations adopted by the Committee in September 2008. These changes had been temporarily put on hold faced by the extreme market conditions.

The interim decisions on the Investment Strategy taken by the Committee needed to be reflected in the Statement of Investment Principles (SIP). Advice had been sought from Hymans Robertson and the Committee **agreed** to amend the SIP as follows:

- By adding the following paragraph in the Asset Allocation section:

- From time to time, particularly when implementing the changes to the strategic asset allocation, when markets are volatile or when dealing costs are high, the Committee may deviate from the long term strategy on a temporary basis. The Committee recognises that, whilst it is impossible to predict short-term market movements, it should use its reasonable judgement in such circumstances. For example, this could be applied with the aim of avoiding excessive dealing costs or reducing the impact of adverse market movements by spreading changes over a number of dealing dates. In doing so, the Committee also recognises that the Fund is intended to meet the liabilities as they emerge over the longer term and hence the normal default position is to be fully invested broadly in line with the strategic benchmark.
- By amending the paragraph on rebalancing as follows:
 - When the Fund allocation deviates by 5% or more from the strategic allocation, the assets will normally be rebalanced back to within 2.5% of the strategic asset allocation. In exceptional circumstances, when markets are volatile or when dealing costs are unusually high, the Committee may decide to suspend rebalancing temporarily.
- Authorise the Group Director, Finance and Commerce to amend and publish the revised Statement of Investment Principles.

In the light of the still volatile nature of the market the Committee **agreed** to continue placing the £3.5m withdrawn from State Street with Treasury's Debt Management Board and to roll over the £7.5m placed with Barclays until the 20 May 09. The outstanding issues relating to the Investment Strategy will be discussed on 19 May.

35. **SUSPENSION OF STANDING ORDERS**

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

36. **ANNUAL REPORT OF THE COMMITTEE 2008/9 AND ANNUAL PLAN AND TRAINING PROGRAMME 2009/10**

The Committee considered a report detailing the work undertaken by the committee in 2008/09, and the plan of work for the following year along with an assessment of the training requirements for members of the Committee.

During the year training and development had taken place to ensure members were fully briefed, these included three sessions combined with Special Pension Committee meetings for the 2008 Investment Strategy Review, three day Trustee

Training course for Councillor Benham, Alternative Investments and their associated asset classes and Alternative assets and options for pooled/segregated management.

A number of key issues had arisen during the year including:

- Annual Review of Communication Strategy and Governance Policy;
- Annual Review of Whistle blowing Requirements of the Pensions Act;
- Review of Statement of Investment Principles and Funding Strategy Statement;
- Annual Report for Members of the Fund;
- Review of performance of Advisers, Custodians and Actuary;
- Performance of Pensions Administration Service; and
- Consideration of Alternative Investments.

The Committee

1. **agreed** the Annual Report of the Committee;
2. **agreed** that the Annual Report of the Committee be reported to full Council in July;
3. **noted** the proposed work plan for the forthcoming year;
4. **considered** and **agreed** the training proposals and agreed to return the self-assessment form; and
5. **noted** that the Pension Committee planned to meet on five occasions over the next municipal year for normal purposes.

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

Consideration of this report was deferred until the next meeting of the Committee.



MEETING

DATE

ITEM

PENSIONS COMMITTEE

19 MAY 2009

5

REPORT OF THE CHIEF EXECUTIVE

SUBJECT: PENSION FUND OVERVIEW – FOLLOW UP

SUMMARY

A review of the Funds Statement of Investment Principles (SIP) was last undertaken in September 2008 and resulted in some restructuring. Given that the markets have seen unprecedented volatility and market falls since the latter half of 2007 some of intended restructuring has yet to be implemented.

In light of the market conditions, members at the last meeting held on the 17 March 2009 agreed to change the wording in the SIP to provide members with the flexibility of temporarily deviating from the long term strategy.

This report reviews whether the long term changes to the investment strategy should now be adopted.

RECOMMENDATION

That the Committee:

1. Considers Hymans report on the Fund's position with regard to implementation of the investment strategy (Appendix A).
2. Considers the Fund's position with regard to cash and alternatives investments and decides appropriate action.
3. Notes the amended version of the Statement of Investment Strategy (SIP) (Appendix B).

REPORT DETAIL

1. Background

- 1.1 A review of the Funds Statement of Investment Principles (SIP) was last undertaken in September 2008 and resulted in some restructuring. Given that the markets have seen unprecedented

volatility and market falls since the latter half of 2007 some of intended restructuring has yet to be implemented.

- 1.2 In light of the market conditions, members at the last meeting held on the 17 March 2009 agreed to change the wording in the SIP to provide members with the flexibility of temporarily deviating from the long term strategy. The revised wording has now been included in the SIP and is as attached in Appendix B.
- 1.3 The Target asset allocation adopted in the strategy by the Committee in September 2008 against the current allocation is set out as follows:

	Current Allocation (Feb 09)	Revised Long Term Allocation	Previous Allocation
	%	%	%
UK Equities	25.14	33	30
Global Equities	24.23	27	20
Investment Grade Bonds	35.62	25	30
Property	7.63	10	10
Alternatives	0	5	0
Global High Yield Bonds	0	0	10
Cash	7.34	0	0
Private Equity (Nearing expiration)	0.04	0	0

The change was made having regard to performance diversification and the investment objectives as well as having regard to comparative information.

- 1.4 Members need to be mindful that the Investment Strategy/AssetAllocation were adopted to meet the liability profile of the Havering Pension Fund. Members are reminded that the Fund's objective is currently as follows:

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.*

The overriding aims of the Fund as set out in the Funding Strategy Statement are as follows:

- *To ensure that sufficient resources are available to meet all liabilities as they fall due.*
- *To enable employer contribution rates to be kept as nearly constant as possible and at a reasonable cost to the Scheduled bodies, Admitted bodies and to the taxpayers.*

- *To manage employers' liabilities effectively.*
- *To maximise the return from investments within reasonable risk parameters.*

1.5 As a result of changes to the investment strategy;

(a) The Global High Yields Bond Manager's mandate was terminated on the 1 August and cash was to be transferred to the Global Equities Manager in three stages. Two instalments have already been transferred. The final instalment of £7.5m has not been transferred and is currently on deposit. This is due to be repaid to Havering on the 20 May 09.

(b) One of the most significant changes in the strategy was the move to alternatives; this was to be funded by reducing the weighting to Bonds from 30% to 25%. In light of market conditions the Committee, whilst having received presentations and training on options for alternatives, have been minded to postpone this change. The current strategy does states that the asset allocation "...is subject to review pending further investigation into effective ways for gaining access to alternative investments and a return to less volatile market conditions".

1.6 The risk of not implementing the strategy in the long term could be lost opportunities for the funding levels and employer contribution rates. **Members need to consider whether to amend the allocation or maintain the above statement.** In doing this the committee need to be mindful of their responsibilities which include:

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 adviser;*
- *Reviewing investment manager performance against established benchmarks on a regular basis;*
- *Reviewing the investment 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 adviser. The Pensions Committee will also obtain written advice*

from the investment adviser 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;

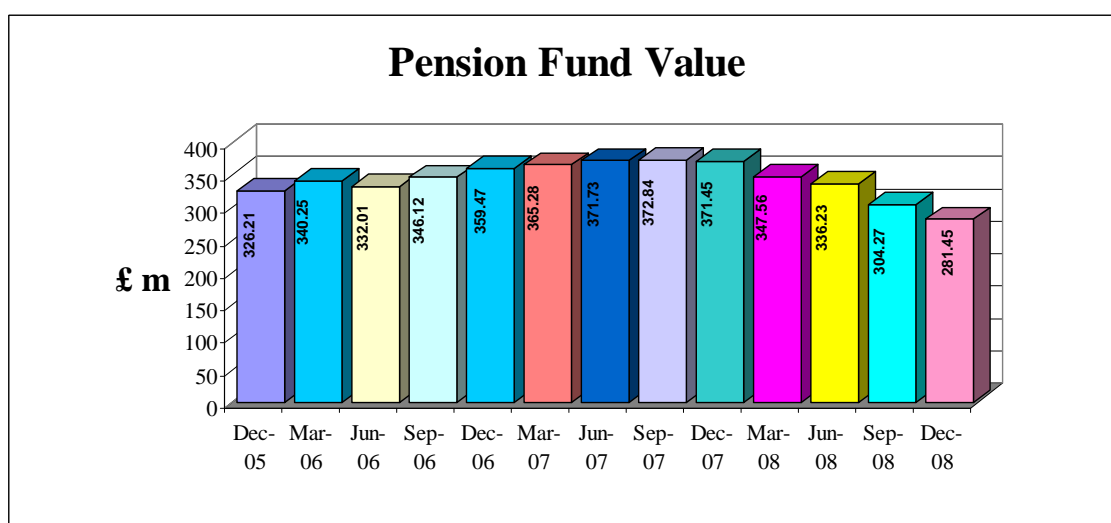
- *Rebalancing the assets with reference to trigger points. When the Fund allocation deviates by 5% or more from the strategic allocation, the assets will be rebalanced back to within 2.5% of the strategic asset allocation. In exceptional circumstances, when markets are volatile or when dealing costs are unusually high, the Committee may decide to suspend rebalancing temporarily. 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 Pensions Committee will seek the written advice of the investment adviser with regard to rebalancing and detailed distribution of cash or sale proceeds.*

- 1.7 The fund is currently consciously holding a significant amount of cash as a more stable investment. This is in line with the flexibility of permitting members to deviate from the long term strategy during volatile market conditions. **Members need to give consideration as to the long term use of the cash balances. In doing this paragraph 1.6 applies.**
- 1.8 UBS, our property manager, issued a product whereby investors would hold shares in real estate companies rather than direct holdings in property. It was an option put forward to address an underweight position in Property. The Funds Investment Advisor assessed the proposal and submitted a paper was for consideration at the 10 February 2009 committee meeting. Given the market conditions this decision was deferred. The SIP has since been amended to give members the flexibility to temporarily suspend rebalancing the fund in volatile market conditions. **Members need to give consideration as to whether this is an option to consider in the longer term. In doing this paragraph 1.6 applies.**
- 1.9 The Committee need to consider current risks against future opportunities in order that there is a record of all the considerations having been taken on board.

2. Overall Fund position

2.1 Fund Value

Based on information supplied by our performance measurers the total combined Fund value at the close of business on 31 December 2008 was **£281.45m**. This valuation differs from the basis of valuation used by our Fund Managers and our Investment Advisor in that it excludes income. (The March position is not yet available and will be provided at the meeting).



Source: WM Company (Performance Measurers)

2.1.1 As at 28 February 2009, the Fund Value, based on fund manager's valuations, is **£255.2m** (this has not been reconciled to our custodian's values— reconciliation take place on a quarterly basis only).

2.1.2 The fund value includes cash totalling **£18.2m** internal cash and is broken down as follows:

- £6.9m Pension fund cash balance
- £3.8m Cash deposits held by the Debt Management Board.
- £7.5m Currently on deposit and available for reinvestment from 20 May 09.

Financial Implications and risks:

The Investment Strategy/Asset Allocations were adopted to meet the liability profile of the Havering pension fund. The risk of not implementing the strategy in the long term would influence the funding levels and employer contribution rates.

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
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CHERYL COPPELL
Chief Executive

Background Papers List

Statement of Investment Principles published November 2008.

Item 5
Appendix 'B'

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Havering
LONDON BOROUGH

STATEMENT OF INVESTMENT PRINCIPLES

REVISED MAY 2009

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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 1999 as amended require Local Authority Pension Funds to prepare a Statement of Investment Principles (SIP) and to review it at least every three years and without delay after any significant change in investment policy. 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.

In preparing this Statement, the Pensions Committee has considered advice from the Investment Practice of Hymans Robertson LLP.

In relation to the Myners Code of Conduct for Investment Decision Making, the extent of the Trustees compliance with this voluntary code is summarised in the Appendix to this statement.

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. Following the changes to the benefit structure of LGPS Schemes from 1 April 2008, active members previously paying contributions of 6% will pay banded rates between 5.5% and 7.5% depending on their level of full-time equivalent pay. Manual workers in employment before 1st April 1998 who previously had a protected 5% rate will be subject to transitional rates.

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.

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

The Pensions Committee also receives and considers advice from executive officers of the Council and, as necessary, from its appointed external investment adviser (including specific investment advice), the actuary to the Fund 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

The purpose of the Fund is:

1. To pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses;

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2. To receive monies in respect of contributions, transfer values and investment income.

The overriding aims of the Fund as set out in the Funding Strategy Statement are as follows:

- To ensure that sufficient resources are available to meet all liabilities as they fall due.
- To enable employer contribution rates to be kept as nearly constant as possible and at a reasonable cost to the Scheduled bodies, Admitted bodies and to the taxpayers.
- To manage employers' liabilities effectively.
- To maximise the return from investments within reasonable risk parameters.

For active members, benefits are based on service completed but take account of future salary increases. The value of liabilities is calculated consistently on the ongoing basis set out in the formal report of the Fund's Actuary on the actuarial valuation carried out as at 31 March 2007. The funding position is monitored quarterly by the Pensions Committee and formally reviewed at each triennial actuarial valuation.

Investment Objective

Following a review of the Investment Strategy in 2008, the Pensions Committee have translated their objectives into a suitable strategic asset allocation benchmark for the Fund. All day to day investment decisions have been delegated to a number of authorised investment managers. The strategic benchmark is reflected in the choice and mix of funds in which the Fund invests. The Fund's benchmark is consistent with the Pensions Committee's collective view on the appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk.

The Committee have conducted a detailed study of the Funds' investment strategy involving an asset/liability modelling exercise ('Phase 1') and a structure modelling exercise ('Phase 2') for fine tuning of the risk return profile of the selected strategy. In selecting the investment strategy the Pensions Committee have been advised by their Investment Adviser, Hymans Robertson, and have paid due consideration to:

- Prudence – the impact on the margins included in the actuarial funding basis and the need for the actuary to adopt a prudent approach.
- Affordability – the impact on the level of Employer contributions in the longer term.
- Stability – the extent to which Employer contributions vary between actuarial valuations and the need to minimise such variations.

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- Stewardship – the impact of the investment strategy on reaching target funding levels and the associated risks involved.

Asset Allocation

To achieve their objectives the Pensions Committee have agreed upon the following benchmark allocation:

	Column 1	Column 2
	current	target
	%	%
Property	10	10
UK Equities	30	33
Global Equities	30	27
Fixed Interest Gilts	}	5
Index Linked Gilts	} 30	5
Corporate Bonds	}	15
Alternatives	0	5

The asset allocation in column one represents the asset allocation as at November 08. The asset allocation in column two represents the Pensions Committee target allocation and is subject to review pending further investigation into effective ways for gaining access to alternative investments and a return to less volatile market conditions.

The underlying target return of this strategy is the return on long dated Gilts plus 2.9% p.a. This level of performance over Gilts allows for the expected returns from the combination of asset classes net of fees, and makes a conservative allowance for active manager skill. It is consistent with the average long term return expectations underlying the modelling work supporting the strategy review.

The expected returns for individual asset classes are:

	Expected Rates of Return
	% p.a.
UK Equity (UK)	7.8%
Equity (Overseas)	7.5%
Fixed Interest Gilts	4.6%
Index-Linked Gilts	4.4%
Corporates	5.4%
Cash	4.8%

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Commercial Property	5.7%
Alternative Assets	7.0%

Choosing Investments

The Pensions Committee have appointed investment managers who are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The Pensions Committee have given the investment managers specific directions as to the asset allocation but investment choice has been delegated to these managers subject to their respective benchmarks and asset guidelines.

At the time of writing, the Fund is undergoing changes to its structure to align with the new benchmark allocation. The allocation of assets to each manager that the Committee aims to have in place at the end of the restructuring process is as follows:

Mandate (% of fund awarded)	Manager	Tactical Benchmark	Target
Property (10%)	UBS	HSBC All balanced (property) Fund's median	To outperform the benchmark
UK Equities (30%)	Standard Life	FTSE All Share	+2% net of fees
Global Equities (30%)	Alliance Bernstein	MSCI All Countries Index	+2.5% net of fees
Investment grade bonds (25%)	Royal London Asset Management	Composite	+0.75% net of fees
Alternatives (5%)	Not appointed at time of review		

The Global High Yield Bond mandate with Western Asset Management was terminated on the 1st August 2008 and all proceeds are being directed to Alliance Bernstein for investment in Global Equities. The Pensions Committee were aiming to have invested in an Alternatives mandate by the first quarter of 2009 subject to identifying the most effective way to gain such exposure and a return to less volatile market conditions; the funds earmarked for this investment are currently with Royal London Asset Management invested in Index Linked Gilts.

From time-to-time, particularly when implementing the changes to the strategic asset allocation, when markets are volatile or when dealing costs are high, the committee may deviate from the long-term strategy on a temporary basis. The Committee recognises that, while it is impossible to predict short-term market movements, it should use its reasonable judgement in such circumstances. For example, this could be applied with the aim of avoiding excessive dealing costs or reducing the impact of adverse market movements by spreading changes over a number of dealing dates. In doing so, the

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committee also recognises that the Fund is intended to meet the liabilities as they emerge over the longer term and hence the normal default position is to be fully invested broadly in line with the strategic benchmark.

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.

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 adviser;
- Reviewing investment manager performance against established benchmarks on a regular basis;
- Reviewing the investment 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 adviser. The Pensions Committee will also obtain written advice from the investment adviser 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 Fund allocation deviates by 5% or more from the strategic allocation, the assets will be rebalanced back to within 2.5% of the strategic asset allocation. In exceptional circumstances, when markets are volatile or when dealing costs are unusually high, the Committee may decide to suspend rebalancing temporarily. 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 Pensions Committee will seek the written

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advice of the investment adviser 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 Pensions 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 Pensions 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;

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- 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 Pensions 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 Adviser 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 Pensions Committee and the executive officers;
- Independent monitoring of the investment managers and their activities.

The Investment Adviser is remunerated by way of time cost fees and fixed fees within an agreed annual budget.

The Auditor

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

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

The Historic Position of Fund

The Fund is unlikely to be fully funded for several years. This has arisen for a number of reasons including.

- 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).

- Overall investment returns since 1998 falling short of those anticipated in the funding strategy adopted from time to time.
- Longevity improving at a faster rate than anticipated.

At the last triennial valuation (at 31st March 2007) the funding ratio was 68%.

The Administering Authority is obliged to prepare a Funding Strategy Statement (FSS), which is published on the Council's web site at www.havering.go.uk (Within 'Council and Democracy', 'About council tax and our finances', 'Havering Pension Fund'). This outlines the method by which the Fund aims to return to an acceptable level of funding. This is expected to be achieved by a combination of increased contributions to the Fund, and achieving good long-term investment returns following the implementation of the new investment strategy in 2008.

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 2007 and an Asset/Liability study and advice on asset allocation from the Fund's Investment Adviser in 2008.

Reporting

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

Risk

In 2008, following recommendations from the 2007 Actuarial Valuation and a full review of investment strategy commissioned from the Fund's investment

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adviser, the Pension Committee agreed to revise the investment strategy. The revised strategy is intended to balance the need to achieve sufficient long term returns without taking an excessive amount of risk. Risk is controlled by spreading Equity exposure more widely outside the UK, retaining allocations to Property and Bond investments and implementing a new allocation to Alternative investments.

The structure modelling which formed part of the 2008 Strategy Review indicated that the revised strategy had a total risk of approximately 14% compared to the Fund's liabilities. This means that the assets are expected to move within the range -14% to +14% relative to the liabilities in two out of every three years.

The allocation to growth assets following the review is: 75% in a mixture of equities, property and alternative assets with the remaining 25% 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 Pensions 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;

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- 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 Investment 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, while the non-financial factors should not drive the investment process to the detriment of the financial return of the Fund, it is appropriate for the Investment Manager to take such factors into account when considering particular investments.

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(s), 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.

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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 Adviser 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 www.havering.go.uk (within 'Council and Democracy', 'About council tax and our finances', 'Havering Pension Fund').

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@havering.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 has been updated in November 2008 and is available as an appendix to this statement.

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MEETING	DATE	ITEM
PENSIONS COMMITTEE	19 May 2009	6

REPORT OF THE CHIEF EXECUTIVE

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

SUMMARY

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

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

The Committee agreed to:

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

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

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

RECOMMENDATION

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

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

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

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

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

REPORT DETAIL

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

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

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

Flexible Retirement – Regulation 35

2. One of the new discretions was the introduction of flexible retirement benefits. Part of the approach to affordable pension provision is to allow people to save more by relaxing some of the tax rules around contribution rates and subsequent benefits and to encourage employees to keep working beyond the age where they might previously have contemplated early retirement to retain skills in the public sector. Employees can now remain contributors to the Council’s

pension scheme up to the day before their 75th birthday. In addition, there are new provisions allowing pensions scheme members to receive payment of their pensions with their employers consent whilst continuing to work in a reduced or part-time capacity.

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

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

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

4. Waiving the actuarial reduction could be a substantial cost to the employer which must be paid into the fund immediately. Therefore, very few authorities appear to be considering waiving any reduction in benefits. This was discussed at the meeting which previously considered this and led to Members agreeing to:

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

5. There are a number of advantages for employers in allowing flexible retirement:

- Allowing older employees to reduce their hours or grade and continue working may improve the health, motivation and productivity of the workforce.
- It will underpin the Council’s commitment to avoiding age discrimination and mitigate recruitment difficulties which may be associated with an ageing population.
- It also allows for a more pro-active approach to succession planning.

6. As a new area of discretion it is difficult to say what extent the facility might be taken up and therefore, what costs might be incurred as a result to the Fund if waiver was possible or to employee costs of

covering loss of partial skills/capacity. At this early stage it is important that each case takes into account the financial cost of the Pension fund and Council budgets and human resources costs associated with recruiting and training a replacement for the additional hours for the post.

7. Officers have now reviewed these factors and it is recommended that the Policy be that no waiving of actuarial reduction should take place unless an extremely exceptional case and this be agreed by the Committee itself on the recommendation of the Group Director Finance and Commerce having regard to individual merits of the case, the robustness of the written business reasons, the benefit to the Council and the level of cost involved. Cases where there is no cost or where there are regulations that have to be followed which prevent a reduction, will continue to be agreed by the Pensions Panel.

Abatement – Regulation 109

8. Due to the above, it is appropriate for the Council to reconsider its abatement policy. Where a scheme member who is in receipt of a pension from the Council's Fund enters a local government employment where they are again eligible to join the scheme (regardless of which employer within the Fund they join) the Council can decide to reduce or suspend that person's pension (commonly referred to as "abatement"). This option only applies in respect of re-employment in local government, it cannot apply for any other employment regardless of the level of remuneration being received in subsequent non local government employment.
9. The current policy of the Council is to abate pensions on re-employment (i.e. the annual rate of the pension is reduced by the amount, if any, which is necessary to ensure that the total of the annual remuneration of the new employment plus the annual rate of the pension does not exceed the annual remuneration of the old employment, in real terms).
10. While abatement may have been seen as a useful tool in the past to ensure the benefits of the Local Government Pension Scheme are not abused (for example, in cases where an employee is re-employed by the same local authority in a very similar post shortly after receiving early retirement), it could be argued that such abuse has always been in the control of employers and decisions to retire an employee should not have been taken where this type of 're-deployment' was a possibility.
11. It should also be noted however that with the introduction of flexible retirement provisions, it is now possible to legitimately allow an employee to reduce their hours or responsibilities and remain working while drawing their accrued pension benefits. In these cases the LGPS regulations specifically state that abatement should not apply.

12. Members views are requested re the current policy and if a change should apply.

Policy Statement

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

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

Financial Implications and risks:

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

Legal Implications and risks:

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

Human Resources Implications and risks:

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

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

Equalities and Social Inclusion Implications and risks

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

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CHERYL COPPELL
Chief Executive

Background Papers List

The Local Government Pension Scheme Regulations (as amended)

APPENDIX A



The Local Government Pension Scheme Regulations (as amended)

Statement of Policy (February 2009)

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

Flexible Retirement

Changes have recently been made to the rules of the local Government Pension Scheme allowing scheme members (and employers) to consider the option of flexible retirement. This regulation allows employees over 50 who have reduced their grade or hours to receive immediate pension benefits whilst still working.

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

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

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

Increase of total membership of members leaving employment at or after age 50

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

Increase of total membership of new members

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

Establishment of shared cost AVC scheme (SCAVCs)

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

Abatement of retirement pensions in new employment

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

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

APPENDIX B**LOCAL GOVERNMENT PENSION SCHEME
DISCRETIONS POLICY (Updated Feb 2009)**

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

Regulation 31

Consent to the immediate payment of pension benefits between the ages of 50 and 60

Consent to the early payment of deferred pension benefits on compassionate grounds on or after the age of 50 and the waiving of an actuarial reduction to pension benefits on compassionate grounds.

The Local Government Pension Scheme allows a scheme member to retire voluntarily (or to receive payment of deferred benefits in the case of employees who have already left) at any point from age 60. Depending on their accrued scheme membership service at that point, they may suffer a reduction in the value of their pension and lump sum. The Pension Regulations provide that employers may permit scheme members to retire (or receive payment of deferred benefits) before age 60 (as long as they have attained age 50). As with retirement after age 60, they may suffer a reduction to the value of their accrued pension and lump sum.

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

Regulation 35

Power of the Employing Authority to enable an employee who reduces their hours or grade either by their request or action by the employer, and is over 50 and under 65 to take their pension benefits with employer consent and remain in employment.

Changes have been made to the rules of the local Government Pension Scheme allowing scheme members (and employers) to consider the option of flexible retirement. This regulation allows employees over 50 who have

reduced their grade or hours to receive immediate pension benefits whilst still working.

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

Regulation 52

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

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

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

The Council policy, as determined at Pensions Committee in 2006, is not to exercise its power of discretion under this regulation.

Regulation 53

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

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

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

Regulations 67 and 71

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

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

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

Regulation 109

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

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

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