



Havering

LONDON BOROUGH

PENSIONS COMMITTEE

AGENDA

7.30pm

**Tuesday,
21 September 2010**

**Havering Town Hall,
Main Road, Romford.**

Members 7: Quorum 3

COUNCILLORS:

| | | | |
|--------------------------|----------------------|-------------------|----------------------------------|
| Conservatives (4) | Residents (1) | Labour (1) | Independent Residents (1) |
| Eric Munday (C) | Ron Ower | Denis Breading | Jeffrey Tucker |
| Damian White (VC) | | | |
| Roger Ramsey | | | |
| Melvin Wallace | | | |

Trade Union Observers

(No Voting Rights) (2)

John Giles (Unison)
TBC

**Admitted / Scheduled Bodies
Representative
(No Voting Rights) (1)**

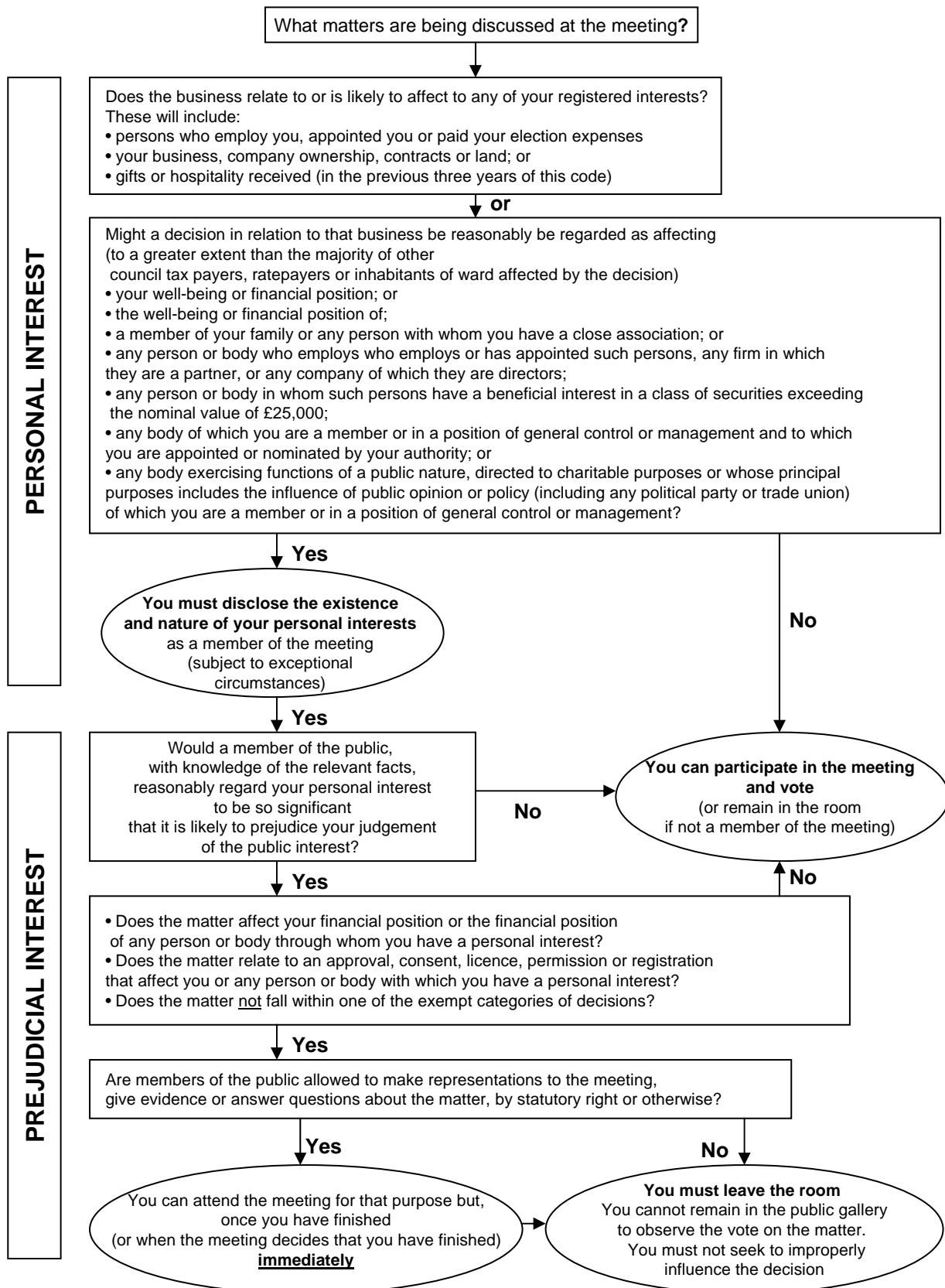
David Holmes

For information about the meeting please contact:

James Goodwin (01708) 432432

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

DECLARING INTERESTS FLOWCHART – QUESTIONS TO ASK YOURSELF



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 any item at any time prior to the consideration of the matter.

4. MINUTES OF THE MEETING

To approve as correct the minutes of the meeting held on 30 June 2010 and authorise the Chairman to sign them.

5. PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 30 JUNE 2010 - Reports attached

6. PENSION FUND ACCOUNTS 2009/10 - 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.

**Philip Heady
Democratic Services Manager**

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**MINUTES OF A MEETING OF THE PENSIONS COMMITTEE
Havering town Hall, Romford
30 June 2010 (7.30pm –9.46pm)**

Present:

COUNCILLORS

| | |
|------------------------------|---|
| Conservative | Eric Munday (in the Chair), Roger Ramsey (part of the meeting), Melvin Wallace and Damian White |
| Residents | Ron Ower |
| Labour | Denis Breading |
| Independent Residents | Jeffrey Tucker |
| Trade Union Observers | John Giles (Unison) |

An apology for absence was received from David Holmes.

All decisions were made with no member voting against.

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

1. MINUTES

The minutes of the meeting held on 13 March 2010 and of the Special meeting held on 13 March 2010 were agreed as a correct record and signed by the Chairman.

2. PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 31 MARCH 2010

Four times a year the Committee was provided with an overview of the performance of the Havering Pension Fund investments. This information is taken from Quarterly Performance reports supplied by each Investment Manager, the WM Company Quarterly Performance Review report and Hymans Robertson Monitoring Report. Two of the Investment Managers are invited to each meeting to inform the Committee of their performance, this means the Committee see each Investment Manager twice a year.

(a) Hymans Robertson (HR) Monitoring Report.

HR reported that enthusiasm for equity markets continued over the quarter, supported

Pensions Committee 30 June 2010

by the publication of data indicating the end of the recession. On Bond markets, the Greek debt crisis illustrated the perils of running a high level of public debt. During the quarter, debt rating agencies indicated that faster action to reduce borrowing was required for the UK to retain its status in international bond markets. Against this background, UK fixed interest government bonds returned, mainly through income, a modest 1.1% during the quarter.

After six consecutive quarters of economic contraction in the UK, evidence of modest growth in the closing months of 2009 was well received.

HR informed the Committee that Alliance Bernstein underperformed the MSCI All Countries index by 1.4% (net) for the first quarter. Since inception returns of the mandate were still lagging behind the benchmark significantly by 2.8% p.a.

Standard Life's performance was again strong, outperforming the benchmark by 1.2%. Their recent strong performance (+10.6% relative over 12 months) had helped to improve the longer term performance markedly. Since inception their performance is in line with benchmark, but remained 2.1% p.a. behind the outperformance target.

Royal London had delivered a fourth consecutive quarter of outperformance. Relative returns were 0.5% over the quarter. Their performance was positive across all three classes of bonds. Since inception the manager was marginally ahead of benchmark by 0.2% (after fees).

UBS Triton fund continued its disappointing run of performance as it dealt with asset sales and the last of its redemption queue over quarter 1. Relative returns over the quarter showed an underperformance of 0.8%. Since inception performance was 3.3% behind benchmark (net of fees).

The overall fund return was 5.9%. This represents an underperformance of 0.2% against the tactical benchmark and an outperformance of 5% against the strategic benchmark.

(b) UBS

Justin Brown, Acting Portfolio Manager, UBS Triton, Matthew Howard, Assistant Portfolio Manager, UBS Triton and Claire Felgate, Capability Manager attended the meeting to present the UBS quarterly report.

Further to the presentation given to the Committee in December 2009 UBS informed the Committee of their progress in disposing of those properties, in order to meet redemption requests and were delivering low yields. As a result of these actions the redemption queue was down to zero. Asset managers now had fewer properties to manage and UBS expected to be at benchmark or above for quarter 2.

Following the disposals and active management of the remaining portfolio vacancy rates were down to 10%. UBS would no longer be taking large development risks; the fund is now looking forward to a more positive performance.

Pensions Committee 30 June 2010

The Committee **noted** the UBS presentation.

(c) Alliance Bernstein

Adrian Brown, Senior Portfolio Manager – Blend Strategies and Anthony Pickering, Director – Client Relations attended on behalf of Alliance Bernstein.

AB advised the Committee that after strong results in 2009, the Global Style Blend portfolios had lagged in the first quarter, mostly because of weakness early in the quarter, when risk aversion rose. They believe their growth and value teams have identified a wide array of compelling opportunities where pricings do not appropriately reflect the underlying fundamentals.

AB advised the Committee that last year they had over 7,000 meetings with the companies they invest in. They took the opportunity to talk to companies about their competitors. They believed they were taking sensitivity and controlled measures to manage risk.

The Committee **noted** the report.

(d) Cash Reserves

Having listened to the advice of officers the Committee **agreed** to continue placing the £6.3m in cash on deposit until funds are required to be placed with either or both of the new Investment Managers.

(e) New Investment Managers

The Committee expressed their concern at the time it was taking to conclude matters with the new Investment Managers as they were anxious to see the portfolio diversified. HR advised that progression has been made and expected the Pension Fund to be Investing in Ruffer by September.

6. REVIEW OF THE STATEMENT OF INVESTMENT PRINCIPLES

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires an administrating authority to prepare, maintain and publish a written statement of the principles governing its decision about the investment of fund money (this is known as Statement of Investment Principles (SIP)).

The regulations, also state that administrating authorities must prepare and publish a statement which states the extent to which an administrating authority complies or does not comply with guidance issued by the secretary of State. Where it does not comply it must state reasons for non compliance. (This is known as the Myner's principles).

The regulations as revised came into force with effect from the 1 January 2010.

Pensions Committee 30 June 2010

The SIP must be published no later than **1 July 2010**.

Last year the Committee decided not to make any changes to the SIP pending progression of the investment strategy and the issuance of expected revised regulations. The Investment Strategy has progressed with the appointment of two new Investment Managers in March 2010. In light of these appointments the SIP required some changes to reflect a reduction in active equity management to passive and to clarify the committee's policy on stock lending. The risk element of the statement had been strengthened after seeking advice from the funds investment adviser.

Officers identified to the Committee three points where the Pension Fund is not fully compliant with the six Myner's Principles. They advised the Committee of the actions they proposed to ensure full compliance.

Having considered the report the Committee:

- 1) Agreed the proposed amendments as set out in Appendix 'A' to the report:
and
- 2) Agreed to the administrative authority's position in respect of reporting compliance against the Myner's investment principles.

PENSIONS COMMITTEE

21 September 2010

REPORT

| | |
|---|---|
| Subject Heading: | PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 30 JUNE 2010 |
| Report Author and contact details: | Contact: Debbie Ford Designation: Pension Fund Accountant Telephone: (01708) 432569 E-mail address: debbie.ford@havering.gov.uk |
| Policy context: | Pension Fund Managers' performances are regularly monitored in order to ensure that the investment objectives are being met. |
| Financial summary: | This report comments upon the performance of the Fund for the period ended 30 June 2010. |

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

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

SUMMARY

This report provides the Committee with an overview of the performance of the Havering Pension Fund investments for the quarterly period to 30 June 2010. The performance information is taken from the Quarterly Performance Report supplied by each Investment Manager, the WM Company Quarterly Performance Review Report and Hymans Monitoring Report.

The net return on the Fund's investments for the **quarter** to 30 June 2010 was **-8.1%**. This represents an underperformance of **-2.7%** against the

combined tactical benchmark and an under performance of **-14.2%** against the strategic benchmark.

The overall net return of the Fund's investments for the **year** to 30 June 2010 was **17.3%**. This represents an underperformance of **-2.1%** against the annual tactical combined benchmark and an outperformance of **5.6%** against the annual strategic benchmark.

Members should bear in mind that the markets have seen unprecedented volatility since the latter half of 2007 and further market crisis in the financials sector led to more market falls during 2008. The middle part of 2009 saw markets continuing to rally on the back of an improvement in worldwide economic data, erasing some of the losses from the early part of the year. This latest quarter saw a setback due to the fragile state of the global economy recovery and the financial fears over the Euro-zone debt. Interest rates remain at 0.5%.

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

RECOMMENDATIONS

That the Committee:

- 1) Considers Hymans performance monitoring report and presentation (Appendix A).
- 2) Receive presentations from the funds UK Equities Manager (Standard Life) and the Investment Grade Bonds Manager (Royal London).
- 3) Notes the summary of the performance of the Pension Fund within this report.
- 4) Considers the quarterly reports provided by each investment manager.
- 5) Considers and notes any Corporate Governance issues arising from voting as detailed by each manager.
- 6) Considers any points arising from officer monitoring meetings (section 4 refers).
- 7) Notes the analysis of the cash balances (paragraphs 2.2, 2.3 and 2.4 refer).
- 8) Notes the action with regard to the funds cash position (paragraph 2.3 refers).

REPORT DETAIL

1. Background

- 1.1 A major restructure of the fund took place in the first quarter of 2005. A further restructure of the fund took place during the first half of 2008 and these changes were reflected in a revised Statement of Investment Principles (SIP) adopted by members in September 2008 and subsequently updated in June 2010.
- 1.2 As part of the SIP a strategic benchmark was adopted for the overall Fund of Gilts + 3.6% gross (3% net) per annum. In the revised SIP the strategic benchmark adopted for the overall Fund is Gilts plus 2.9% (net of fees) per annum. This is the expected return in excess of the fund’s liabilities over the longer term. **The main factor in meeting the strategic benchmark is market performance.**
- 1.3 Individual manager performance and asset allocation will determine the out performance against the strategic benchmark. Each manager has been set a specific (tactical) benchmark as well as an outperformance target against which their performance will be measured. This benchmark is determined according to the type of investments being managed. This is not directly comparable to the strategic benchmark as the majority of the mandate benchmarks are different but contributes to the overall performance. No revisions were made to individual fund manager benchmarks as part of the investment strategy review. However the asset allocation has been revised and these are shown in the following table against the manager’s benchmarks:

| Manager and % of total Fund awarded | Mandate | Tactical Benchmark | Out performance Target |
|--|------------------------------|---|--|
| Standard Life 20% | UK Equities -Active | FTSE All Share Index | 2% |
| Alliance Bernstein 25% | Global Equities - Active | MSCI All World Index | 2.5% |
| State Street 15% | UK/Global Equities - Passive | Composite | To track the benchmark (gross of fees) |
| Royal London Asset Management 25% | Investment Grade Bonds | <ul style="list-style-type: none"> • 50% iBoxx Sterling Non Gilt Over 10 Year Index • 16.7% FTSE Actuaries UK Gilt Over 15 Years Index • 33.3% FTSE Actuaries Index-Linked Over 5 Year Index | 0.75% |
| UBS 10% | Property | IPD (previously called HSBC/AREF) All Balanced Funds Median Index | To outperform the benchmark |

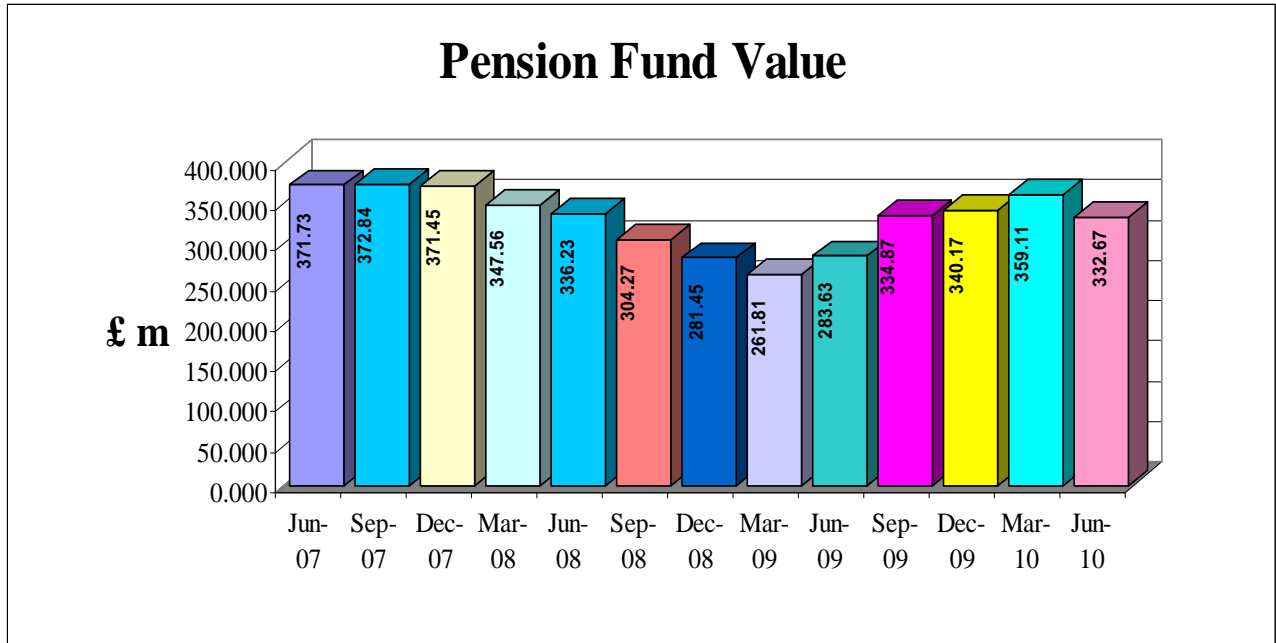
| Manager and % of total Fund awarded | Mandate | Tactical Benchmark | Out performance Target |
|--|--------------------|---------------------------|---|
| Ruffer 5% | Absolute Return | UK bank deposit rate | To outperform the benchmark (net of fees) |

- 1.4 The allocation to Royal London will reduce to 25% to fund an investment in alternatives. The Committee appointed a Multi-Asset Manager (Ruffer) and a passive Equity Manager (State Street) in February 2010. At the time of writing this report the transition arrangements for the transfer of funds to the new managers is still in progress. A verbal update on the progress of manager trading will be provided at the meeting.
- 1.5 UBS manage the assets on a pooled basis. Standard Life, Royal London and Alliance Bernstein manage the assets on a segregated basis. Performance is monitored by reference to the benchmark and out performance target. Each manager’s individual performance is shown in this report with a summary of any key information relevant to their performance.
- 1.6 Since the Quarter 3 (September 06) Report, to ensure consistency with reports received from our Performance Measurers, Investments Advisors and Fund Managers, the ‘relative returns’ (under/over performance) calculations has been changed from the previously used arithmetical method to the industry standard geometric method (please note that this will sometimes produce figures that arithmetically do not add up).
- 1.7 Existing Managers are invited to present at the Pensions Committee Meeting every six months. On alternate dates, they meet with officers for a formal monitoring meeting. The exception to this procedure is the Property Manager, UBS, who will attend two meetings per year, one with Officers and one with Pensions Committee. However due to members concerns over UBS performance, from September 09 UBS monitoring arrangements were brought in line with the other fund managers.
- 1.8 Each of the new managers (Ruffer and State Street) will attend two meetings per year, one with officers and one with the Pensions Committee. If there are any specific matters of concern to the Committee relating to the Managers performance, arrangements can be made for additional presentations.
- 1.9 Hyman’s performance monitoring report is attached at **Appendix A**.

2. Fund Size

- 2.1 Based on information supplied by our performance measurers the total combined fund value at the close of business on 30 June 2010 was **£332.67m**. This valuation differs from the basis of valuation used by our Fund Managers and our Investment Advisor in that it excludes income. This compares with a fund value of £359.11m at the 31 March 2010; a decrease of **£26.44m**. The movement in the fund value is attributable to a decrease in fund performance of £29.46m which was offset by an increase in internal cash

of £3.02m. The internally managed cash level totals **£7.4m**, of which an analysis follows in this report.



Source: WM Company (Performance Measurers)

2.2 An analysis of the internally managed cash balance of **£7.4m** follows:

| CASH ANALYSIS | 2008/09 | 2009/10 Revised * | 2010/11 |
|---------------------------------|----------------|--------------------------|----------------|
| | £000's | £000's | £000's |
| Balance B/F | -6673 | -7999 | -4763 |
| Benefits Paid | 23878 | 26926 | 6141 |
| Management costs | 1742 | 1939 | 465 |
| Net Transfer Values | 156 | 2639 | -1256 |
| Employee/Employer Contributions | -26546 | -28251 | -7952 |
| Cash from/to Managers | -315 | 0 | |
| Internal Interest | -241 | -17 | -24 |
| Movement in Year | -1326 | 3236 | -2626 |
| Balance C/F | -7999 | -4763 | -7389 |

* Figures have been updated as a result of reconciliations undertaken during closedown of accounts.

2.3 In addition to the internally managed cash above, the fund has **£6.3m** cash on deposit with Lloyds Bank until **12 August 2010**. This was placed on a short term deposit only as it was anticipated that this cash would be passed to Ruffer (new absolute returns manager) to commence trading while the fund redeems some of its holdings with the Bond Manager.

2.4 Internally managed cash had been decreasing during 2009/10; the significant factor being the reduction in net transfer values (more members transferring out than in). A clarification in the regulations was required before a number of 'Transfers In' could be processed. This has since been received and the numbers of 'Transfers In' processed had increased, hence why the cash levels have risen.

3. Performance Figures against Benchmarks

3.1 The overall net performance of the Fund against the new **Combined Tactical Benchmark** (the combination of each of the individual manager benchmarks) follows:

| | Quarter to 30.06.10 | 12 Months to 30.06.10 | 3 Years to 30.06.10 | 5 years to 30.06.10 |
|-----------------------|----------------------------|------------------------------|----------------------------|----------------------------|
| Fund | -8.1% | 17.3% | -4.3% | 2.1% |
| Benchmark return | -5.6% | 19.9% | -0.1% | 3.9% |
| *Difference in return | -2.7% | -2.1% | -4.2% | -1.8% |

Source: WM Company

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

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

| | Quarter to 30.06.10 | 12 Months to 30.06.10 | 3 Years to 30.06.10 | 5 years to 30.06.10 |
|-----------------------|----------------------------|------------------------------|----------------------------|----------------------------|
| Fund | -8.1% | 17.3% | -4.3% | 2.1% |
| Benchmark return | 7.1% | 11.2% | 11.4% | 7.5% |
| *Difference in return | -14.2% | 5.6% | -14.1% | -5.0% |

Source: WM Company

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

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

3.3 The following tables compare each manager's performance against their **specific (tactical) benchmark** and their **performance target** (benchmark plus the agreed mandated out performance target) for the current quarter and the last 12 months.

QUARTERLY PERFORMANCE (AS AT 30 JUNE 2010)

| | Standard Life | Alliance Bernstein | Royal London | UBS |
|--|----------------------|---------------------------|---------------------|------------|
| Return (performance) | -16.6 | -13.5 | 3.4 | 3.4 |
| Benchmark | -11.8 | -10.9 | 3.1 | 3.0 |
| *Over/(Under) Performance vs. Benchmark | -5.4 | -2.9 | 0.3 | 0.4 |
| TARGET | -11.3 | -10.3 | 3.3 | n/a |
| * Over/(Under) Performance vs. Target | -5.9 | -3.6 | 0.1 | n/a |

Source: WM Company, Fund Managers and Hymans

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

ANNUAL PERFORMANCE (LAST 12 MONTHS)

| | Standard Life | Alliance Bernstein | Royal London | UBS |
|--|----------------------|---------------------------|---------------------|-------------|
| ANNUAL | | | | |
| Return (performance) | 19.7 | 19.3 | 17.6 | 7.5 |
| Benchmark | 21.1 | 23.0 | 13.4 | 8.2 |
| *Over/(Under) Performance vs. Benchmark | -1.2 | -3.0 | 3.8 | -0.7 |
| TARGET | 23.10 | 25.5 | 14.2 | n/a |
| * Over/(Under) Performance vs. Target | -3.2 | -4.9 | 3.1 | n/a |

Source: WM Company, Fund Managers and Hymans

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

4. Fund Manager Reports

4.1. UK Equities (Standard Life)

- a) Representatives from Standard Life are to make a presentation at this committee, therefore a brief overview of Quarter 2 performance follows:
- b) The value of the fund as at 30 June decreased by 17% compared to the previous quarter.
- c) Standard Life underperformed the benchmark in the quarter by -5.4% and underperformed the target in the quarter by -5.9%. Since inception they are under the benchmark by -1.1% and under the target by 3%.

- d) A key negative on returns was the holding in BP, where the prospect of extensive litigation and clean up costs alongside the implications for BP's dividend all negatively impacted the share price.

4.2. Global Equities (Alliance Bernstein)

- a) In accordance with agreed procedures officers met with representatives from Alliance Bernstein on the 3 August 2010 at which a review of the quarter 2 performance was discussed.
- b) Market Value of the fund as at 30 June 10 decreased by 13.9% compared with the previous quarter. Alliance Bernstein reported at the meeting that this had increased by 3% as at July 10.
- c) Alliance Bernstein underperformed the benchmark by 2.9% and underperformed the target by 3.6% (Net of fees). Since inception they are below benchmark by 3.2% and below the target by 5.4% (Net of fees).
- d) Concerns about the recovery drove the underperformance in materials and financials. Some of the funds largest holdings were in this sector. Stock specific reasons drove a few other holdings.
- e) The only contribution to performance came from the currency selection. Main detractors from performance came from stock selection.
- f) Positive performance came from holding stocks in ARM Ltd and VMWare (Technology), AstraZeneca (Healthcare), Sprit Nextel (Telecom), Ingersoll-Rand (Industrials) and BMW, Hyundai Motor and Belle International holdings (Consumer Discretionary). Negative performance came from holding stocks in Xstrata, Rio Tinto, Vale (Materials), Wells Fargo, Goldman Sachs (Financials) and Transocean (Energy).
- g) Although it was previously requested that Alliance Bernstein make changes to their presentations following feedback from members that the presentations are too complicated, there was little evidence of reduced complexity. This then became the focus of the meeting. It was reiterated to Alliance Bernstein that future presentation should contain at least the following topics;
- h) Alliance Bernstein will remind members their concepts of Growth and Value philosophies, i.e. Growth Stock – Stock that is expected to generate above average revenue and earnings growth relative to the market. Value Stock – Stock that is under priced by the market relative to assets, sales, dividend income or earnings.
- i) Include how the portfolio performed over the quarter and what drove this. Reference was made to the chart in the quarterly report which demonstrates this.

- j) Show where they see opportunities and how they expect to restore premium. Keeping historical charts and philosophies to a minimum.
- k) The portfolio benchmark is split 50/50 between growth and value stocks. As at Quarter 2 this split was 50.1% Value and 49.9% Growth with an overlap in both of 13.2%. Alliance Bernstein explained about their proposed Blend Risk Mitigation (BRiM) which focuses on managing this overlap stock to reduce risk. Alliance Bernstein plan to go ahead with managing this 'overlap' from August 10 unless the fund opts out. Subsequent to the meeting it has been agreed that the fund is happy to be included in the BRiM process.
- l) With regard to the BRiM process Alliance Bernstein were also questioned about their overlay concepts (style tilts), to which they explained that this element is very much a work in progress and will be discussed at a later date.
- m) Alliance Bernstein advised officers of some of the staffing changes within their organisation following the departure of Lisa Shalett, Head of Growth Equities.
- n) No governance or whistle blowing issues were reported.

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

- a) Representatives from Royal London are to make a presentation at this committee, therefore a brief overview of Quarter 2 performance follows.
- b) The value of the fund as at 30 June 10 increased by 2%. Compared to the previous quarter.
- c) Royal London outperformed the benchmark for the quarter by 0.3% and 0.1% against the target. Since inception they are 0.2% above the benchmark and 0.6% under the target.
- d) The allocation of assets in fixed interest credit bonds and fixed interest government bonds were both positive contributors to the funds return.

4.4. Property (UBS)

- a) In accordance with agreed procedures officers met with representatives from UBS on the 3 August 2010 at which a review of the quarter 2 performance was discussed
- b) The value of the fund has increased by 2.26% since the last quarter.

- c) UBS out performed the benchmark in the quarter by 0.4% and underperformed the benchmark in the year by -0.7%. This ended a run of eight quarters where UBS had been behind the benchmark.
- d) The fund has now experienced the majority of the write-offs from the previous year and feels that they are well placed to benefit from improved performance going forward with the retained portfolio, which now includes the more 'prime' properties. The number of properties in the fund currently stands at 46.
- e) Concerns had been raised previously about the high void rate (19.3% at its peak). UBS produced updated figures for the void rate as at the end of June and this shows that this has reduced to 10.24% against a benchmark of 10.1%. This was as a result of asset management initiatives and sales. They further explained their plans to reduce this even further, 2.6% of the void rate is attributable to the Rex Building in Queen Street with all the vacant space is under offer.
- f) The redemption queue has now been reduced to a level under £25m. UBS were asked to explain why redemption payments had been suspended and were they worried that this will trigger further requests. They explained that redemption payments have only been suspended for the Life fund as cash levels were not high enough to pay these out. They stated that they will not borrow to pay redemptions but will sell assets. They are targeting sales of £70m this year. They did not express concerns that there would be a further flurry of redemptions.
- g) UBS were asked to explain their sector weightings and why they were overweight in both retail and retail warehouses and underweight in industrials. They stated that it was a strategy decision to be overweight in the retail sectors and would target acquisitions in industrials if they had the cash. They also explained that the 'other' category covers leisure and retail parks.
- h) UBS explained their organisational chart and clarified that the asset managers shown in the chart work 100% on the Triton Fund and Anthony Shayle and Robert Houston cover all vehicles. UBS were questioned about how strong an influence Robert Houston's advice had over the fund. And they explained that Robert Houston with a vast amount of experience has a strong influence on the team and in his role as chairman has direct influence on voting.
- i) No governance or whistle blowing issues were reported.

4.5. WM Performance Measurers

Officers met with a WM representative on the 4 August 2010 who gave a presentation on the 2009/10 returns of the WM universe. A summary of the major points are as follows:

- WM universe is made up of 87 funds.
- The average local authority fund returned 35%, this was the best return since the WM universe began and was more than enough to offset the -20% of 2008/09.
- A third of the funds in the universe outperformed the benchmark.
- The combined funds returned just 1% above inflation in the last 10 years and 5% over the last 20 years.
- Havering Pension fund return was 38.6%. This put us borderline of being in the top quartile.
- The relative out performance against the benchmark of 34.8% was attributable to the managers' performance. Manager performance was offset negatively by -1.8% which was attributed to the fund not being invested in line with the benchmark.
- The best performance came from Royal London (Bonds) and Standard Life (UK Equities), the worst performance coming from UBS (Property). Alliance Bernstein (Global equities) was flat.

5. Corporate Governance Issues

The Committee, previously, agreed that it would:

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

This report is being presented in order that:

- The general position of the Fund is considered plus other matters including any general issues as advised by Hymans.
- Hymans will discuss the managers' performance after which the particular manager will be invited to join the meeting and make their presentation. The managers attending the meeting will be from:

Standard Life and Royal London

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

IMPLICATIONS AND RISKS

Financial Implications and risks:

Pension Fund Managers' performances are regularly monitored in order to ensure that the investment objectives are being met and consequently minimise any cost to the General Fund.

Legal Implications and risks:

None arising directly

Human Resources Implications and risks:

There are no immediate HR implications. However longer term, shortfalls may need to be addressed depending upon performance of the fund, which may impact on employees directly.

Equalities and Social Inclusion Implications and risks:

None arising directly

BACKGROUND PAPERS

Standard Life Quarterly report to 30 June 2010
Alliance Bernstein Quarterly report to 30 June 2010
Royal London Quarterly report to 30 June 2010
Western Asset Quarterly report to 30 June 2010
UBS Quarterly report to 30 June 2010
The WM Company Performance Review Report to 30 June 2010
Hyman's Monitoring Report to 30 June 2010

PENSIONS COMMITTEE

21 September 2010

REPORT

| | |
|---|--|
| Subject Heading: | PENSION FUND ACCOUNTS 2009/10 |
| Report Author and contact details: | Contact: Debbie Ford Designation: Pension Fund Accountant Telephone: (01708) 432569 E-mail address: debbie.ford@haverling.gov.uk |
| Policy context: | Pension Fund accounts to be agreed by the Pensions Committee |
| Financial summary: | The report comments on the Pension Fund Accounts for the year ended 31 March 2010 |

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

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

SUMMARY

This report provides Members with an extract of the Council's Statement of Accounts for the year to 31st March 2010 showing the accounts of the Havering Pension Fund as at that date.

RECOMMENDATIONS

That the Committee consider and note the Havering Pension Fund Accounts as at 31st March 2010 and consider if there are any issues that need to be brought to the attention of the audit committee.

REPORT DETAIL

1. Background

1.1 The Council's Audited Statement of Accounts for 2009/10 will be presented to the Audit Committee for agreement on 23rd September 2010. As these accounts include the Pension Fund accounts any matters which in the opinion of the Pensions Committee would require any amendments to the accounts will need to be reported to the Audit Committee.

1.2 At the time of writing this report the Pension Fund Accounts are still subject to audit by Price Waterhouse Coopers as part of the overall audit of the Council's accounts. The part of the statement which covers the Havering Pension Fund Accounts has been extracted, and attached to this report (Appendix A).

1.3 Key items to note from the statement are:

- The Net Assets of the Fund have increased to **£360m** for 2009/10 from £263m in 2008/09, a net increase of £97m. The increase in the fund value reverses the decrease reported in the previous year.
- The net increase of £97m is comprised of a change in the market value of assets of £89m and investment income of £11m, offset by management expenses of (£1m) and net additions of (£2m).
- The overall return on the Fund's investments was 38.2%. Against the tactical benchmark this was an outperformance of 2.5% and against the strategic benchmark was 34.2%. Main contributors of performance were attributable to stock selection in UK equities and Bonds.

- 1.4 A copy of the audited Pension Fund Accounts and the auditors' opinion will be included in the Pension Fund Annual Report. The Pension Fund Annual report will be presented to the committee in November to meet the statutory publication date of 1 December 2010.

IMPLICATIONS AND RISKS

Financial Implications and risks:

Pension Fund Managers' performance is regularly monitored in order to ensure that the investment objectives are being met and consequently minimise any cost to the General Fund.

The Financial Statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a statement from the auditor) Regulations 1996, and with guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes (Revised May 2007).

Regulation 11 of the Accounts and Audit regulations require the publication of the Statement of Accounts after the conclusion of the audit but in any event no later than the 30th September 2010.

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

BACKGROUND PAPERS

Working papers held within the Corporate Finance section.
Draft statement of Accounts 2009/10

LONDON BOROUGH OF HAVERING STATEMENT OF ACCOUNTS 2009- 2010

Pension Fund

Introduction

The Council's Pension Fund is operated under the Local Government Pension Scheme Regulations 2007; the Fund provides benefits for employees (excluding teachers) which include retirement pensions, spouse and children's pensions, death grants and other lump sum payments. Civil partners are now recognised as having the same benefit rights as members' spouses.

The Fund is financed by contributions from employees, employers and from profits, interest and dividends on its investments. The Fund does not form part of the Council's consolidated accounts.

Membership

The membership of the Pension Fund is as follows:

| | As at 31 March 2010 | As at 31 March 2009 |
|---------------------------|---------------------------|---------------------------|
| Contributors | 6,157 | 5,723 |
| Deferred pensioners | 3,744 | 3,463 |
| Pensioners and Dependants | 4,951 | 4,746 |
| TOTAL | 14,852 | 13,932 |

Employers in the Fund

The other employers in the Pension Fund are as follows:

Scheduled bodies

Havering College of Further Education
Havering Sixth Form College
Homes in Havering

Admitted Bodies

Havering Citizens Advice Bureau
Morrisons (formerly AWG)
May Gurney
Catering for Education (in liquidation from Aug 08)
Sports & Leisure Management Ltd
KGB Cleaners

Investment Arrangements

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 publishes a Statement of Investment Principles (SIP) on the Council's website in accordance with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2005.

The Group Director Finance and Commerce supports the Pension's Committee and is responsible for the internal administration arrangements regarding monitoring of the external investment managers' transactions and is also responsible for pension's administration.

Havering Pension Fund appointed five fund managers in February 2005 with specific investment mandates. A review of the funds investment strategy took place during the summer of 2008. The main change resulted in the fund aiming to reduce its asset allocation to Bonds and increase its allocation to Equities. The mandate with the Global Bond's Manager was therefore terminated in August 2008. Given that markets have seen unprecedented volatility and market falls during 2008 some of the intended restructuring had yet to be implemented. The markets were monitored during the year and the fund carried out a competitive tender process for a Passive Equity Manager and a Multi – Asset Manager. The results of this exercise awarded contracts to State Street (passive equities manager) and Ruffer Investment Company (Multi-asset manager) in February 2010 but no trading activity took place during 2009/10.

The fund managers and the market value of assets under their management at the 31st March 2010 were as follows:

| Manager | Mandate | Value | |
|-----------------------|---------------------------|----------------|---------------|
| | | £,000 | % |
| Standard Life | UK Equities | 122,542 | 35.20 |
| Alliance Bernstein | Global Equities | 99,135 | 28.48 |
| Royal London | Investment Grade Bonds | 107,584 | 30.91 |
| UBS | Property | 18,740 | 5.38 |
| | Sub total | 348,001 | 99.97 |
| | Other | 115 | 0.03 |
| | Total Fund | 348,116 | 100.00 |

The main investment objective is to maximise the overall return on the Pension Fund's investments from income and capital appreciation without high risk and to maintain the ready marketability of the portfolio to meet the Fund's fluctuating cash requirements.

Performance

Havering Pension Fund uses the services of The WM Company to provide comparative statistics on the performance of this Fund. The performance of the Fund is measured against a tactical and a strategic benchmark. The tactical benchmark is a combination of all the individual benchmarks set for each manager. The strategic benchmark for the overall fund is a liability benchmark of FTSE A Gilts over 15 years plus 2.9% (net of fees) p.a. The main factor in meeting the strategic benchmark is market performance.

In 2009/10, the overall return on the Fund's investments was 38.2% (2008/09 -25.4%). This represented an out performance of 2.5% against the tactical benchmark (2008/09 -8.0%) and an out performance of 34.2% against the strategic benchmark (2008/09 -33.1%).

Following the unprecedented volatility in financial markets in the wake of the credit crunch and economic downturn, there was some considerable recovery during 2009/10. Although Stock market values have risen over the year, which has been reflected in the performance of the fund, the markets are still very volatile.

Main contributors to performance for 2009/10 were attributable to stock selection in UK Equities and Bonds with Property being the worst detractor from performance.

The longer term performance is as follows:

| | 3 years to 31.3.10 % | 5 years to 31.3.10 % |
|---------------------------|-------------------------------------|-------------------------------------|
| Fund return | (1.0) | 4.9 |
| Tactical Benchmark | 2.2 | 6.3 |
| Performance | (3.1) | (1.2) |

| | | |
|----------------------------|--------------|--------------|
| Fund return | (1.0) | 4.9 |
| Strategic benchmark | 7.4 | 7.5 |
| Performance | (7.9) | (2.4) |

Pension Fund Account for the year ended 31st March 2010

| 2008/09 £'000 | | Note | 2009/10 £'000 |
|-----------------------------------|---|------|------------------|
| Contributions and benefits | | | |
| 26,547 | Contributions | 3 | 28,251 |
| 1,189 | Transfers in | 4 | 849 |
| 27,736 | | | 29,100 |
| (23,720) | Benefits | 5 | (26,926) |
| (1,347) | Leavers | 6 | (3,488) |
| (542) | Administration | 7 | (636) |
| (25,609) | | | (31,050) |
| 2,127 | Net additions (withdrawals) from dealings with members | | (1,950) |
| Returns on Investments | | | |
| (1,185) | Investment management expenses | 8 | (1,303) |
| 10,953 | Investment income | 9 | 11,274 |
| (98,151) | Change in market value of investments | 10 | 89,798 |
| (88,383) | Net returns on investments | | 99,769 |
| (86,256) | Net increase/ (decrease) in the Fund during the year | | 97,819 |
| 348,908 | Net assets of the scheme at start of year | | 262,652 |
| 262,652 | Net assets of the scheme at end of year | | 360,471 |

| Net Asset Statement | | | |
|----------------------------|--|------|---------------------------|
| 31 March 2009 £'000 | | Note | 31 March 2010 £'000 |
| 262,624 | Investment assets | 11 | 360,440 |
| 0 | Investment Liabilities | 11 | (78) |
| 326 | Current assets | 12 | 460 |
| (298) | Current Liabilities | 13 | (351) |
| 262,652 | Net assets of the scheme at end of year | | 360,471 |

The financial statements summarise the transactions of the scheme and the net assets of the fund. They do not take account of obligations to pay pensions and other benefits which fall due after the financial year end. The actuarial position of the scheme which does take account of such obligations, is shown within notes 43 and 44 and these financial statements should be read in conjunction with them.

I certify that the Pension Fund Account and Net Assets Statements present a true and fair view of the income and expenditure in 2009/10 and the Pension Fund's financial position as at 31st March 2010.

Andrew Blake-Herbert, CPFA
Group Director Finance and Commerce
Date: 23 June 2010

Notes to the Pension Fund

1. Basis of Preparation

The Financial Statements have been prepared in accordance with the Occupational Pension Schemes (Requirement to obtain Audited Accounts and a statement from the auditor) Regulations 1996, and with guidelines set out in the Statement of Recommended Practice, Financial Reports of Pension Schemes (Revised May 2007).

A proportion of relevant officers' salary costs, including related on costs, has been charged to the Fund.

2. Accounting Policies

The Financial Statements have been prepared on an accruals basis but transfer values are included on a cash basis in accordance with the SORP.

Normal contributions are recognised when they are deducted from payroll for employee contributions. Employer contributions are recognised on the same basis. Employer augmentations are recognised in accordance with the agreement under which they are paid, or in the absence of an agreement on a receipts basis.

Investments are valued at the bid price at the year end date with any surplus or deficit on valuation being debited/ credited to the Fund account. The comparative figures for investments are shown at their mid-market value as stated in the previous year's financial statements. The comparative figures have not been restated at the bid price on the grounds that the difference in the valuation overall is immaterial. Any adjustment to the values would be reflected in the change in market value.

Future contracts are valued at the exchange price for closing out the contract at the year end date and this represents the unrealised profit or loss of the contract.

Forward foreign exchange contracts are stated at fair value which is determined as the gain or loss that would arise if the outstanding contract was matched at the year end with an equal and opposite contract.

Transactions in foreign currencies are taken into account at the ruling rate of exchange at the time of the transaction and in the financial statements at rates ruling on the 31st March.

Investment income is taken into account where dividends are declared but not paid at the financial year end.

3. Contributions

| | 2009/10 £'000 | 2008/09 £'000 |
|----------------------------------|------------------|------------------|
| Employers | | |
| Normal: | | |
| Havering | 13,239 | 17,393 |
| Scheduled Bodies | 1,939 | 1,780 |
| Admitted Bodies | 568 | 585 |
| Deficit funding: | | |
| Havering | 5,305 | 0 |
| Augmentation: | | |
| Havering | 650 | 601 |
| Scheduled Bodies | 57 | 52 |
| Admitted Bodies | 71 | 0 |
| Employer Total | 21,829 | 20,411 |
| Members | | |
| Normal: | | |
| Havering | 5,395 | 5,158 |
| Scheduled bodies | 690 | 645 |
| Admitted bodies | 167 | 182 |
| Additional contributions: | | |
| Havering | 149 | 132 |
| Scheduled bodies | 19 | 16 |
| Admitted bodies | 2 | 3 |
| Members Total | 6,422 | 6,136 |
| | 28,251 | 26,547 |

Note: Some employees made additional voluntary contributions (AVC's) of £83,256 (£66,827 08/09) which are excluded from the statements. These are deducted from the payroll and forwarded to the stakeholder pension schemes provided by the Prudential and Standard Life. The amounts forwarded during 2009/10 were £58,026 to the Prudential and £25,230 to Standard Life. These amounts are not included in the Pension Fund Account in accordance with regulation 5[2] c of the Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No 1831).

4. Transfers In

| | 2009/10 £'000 | 2008/09 £'000 |
|--|------------------|------------------|
| Individual transfers in from other schemes | 849 | 1,189 |

5. Benefits

| | 2009/10 £'000 | 2008/09 £'000 |
|-----------------------------------|------------------|------------------|
| Pensions | | |
| Havering | 20,426 | 19,134 |
| Scheduled Bodies | 269 | 219 |
| Admitted Bodies | 106 | 63 |
| Pension Total | 20,801 | 19,416 |
| Commutation & Lump Sum | | |
| Retirements | | |
| Havering | 4,732 | 3,542 |
| Scheduled Bodies | 219 | 240 |
| Admitted Bodies | 426 | 0 |
| Commutation Total | 5,377 | 3,782 |
| Lump sum death benefits | | |
| Havering | 748 | 522 |
| Death Benefits Total | 748 | 522 |
| | 26,926 | 23,720 |

6. Payments To and On Account of Leavers

| | 2009/10 £'000 | 2008/09 £'000 |
|---------------------------------------|------------------|------------------|
| Refunds to members leaving service | 5 | 2 |
| Individual transfers to other schemes | 3,483 | 1,345 |
| | 3,488 | 1,347 |

7. Administrative expenses

| | 2009/10 £'000 | 2008/09 £'000 |
|-----------------------------|------------------|------------------|
| Administration & Processing | 568 | 476 |
| Actuarial Fees | 14 | 10 |
| Audit Fees | 35 | 38 |
| Other Fees | 6 | 7 |
| Other Expenses | 13 | 11 |
| | 636 | 542 |

8. Investment Management Expenses

| | 2009/10 £'000 | 2008/09 £'000 |
|--|------------------|------------------|
| Administration, management and custody | 1,224 | 1,089 |
| Performance measurement services | 11 | 11 |
| Other Advisory Fees | 68 | 85 |
| | 1,303 | 1,185 |

9. Investment Income

| | 2009/10 £'000 | 2008/09 £'000 |
|---------------------------------------|--------------------------|--------------------------|
| Income from Fixed Interest Securities | 4,873 | 4,275 |
| Dividends from equities | 5,157 | 6,145 |
| Income from pooled vehicles | 915 | 1,116 |
| Cash & Deposits | 53 | 527 |
| Other | 13 | 75 |
| Other Income | | |
| Foreign Exchange Profits/(Losses) | 263 | (1,186) |
| Total Income | 11,274 | 10,953 |

10. Investments

| | Value at 31 March 2009 £'000 | Purchases at cost and derivative payments £'000 | Sales Proceeds and derivative receipts £'000 | Change in Market Value £'000 | Cash Movement £'000 | Value at 31 March 2010 £'000 |
|-------------------------------|---|--|---|---|------------------------------------|---|
| Equities | 124,337 | 125,699 | (115,113) | 69,480 | 0 | 204,403 |
| Derivatives | 108 | 0 | (98) | (88) | 0 | (78) |
| Fixed interest Securities | 57,212 | 120,670 | (110,229) | 11,162 | 0 | 78,815 |
| Index-linked Securities | 28,902 | 145,572 | (149,630) | 3,427 | 0 | 28,271 |
| Pooled Investment Vehicles | 26,423 | 866 | (1,073) | 5,675 | 0 | 31,891 |
| Cash instruments | 498 | 21,740 | (21,788) | 0 | 0 | 450 |
| Cash deposits (fund managers) | 4,052 | 0 | 0 | 40 | 188 | 4,280 |
| | 241,532 | 414,547 | (397,931) | 89,696 | 188 | 348,032 |
| Cash deposits (banks) | 11,300 | 0 | 0 | 0 | (5,000) | 6,300 |
| Short term investments | 7,999 | 0 | 0 | 0 | (3,236) | 4,763 |
| | 260,831 | 414,547 | (397,931) | 89,696 | (8,048) | 359,095 |
| Other Investment Balances | 1,793 | 0 | 0 | 102 | (628) | 1,267 |
| | 262,624 | 414,547 | (397,931) | 89,798 | (8,676) | 360,362 |

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments and due to the transfer of assets during the year.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year as supplied by Fund Managers amounted to £459,270 (2008/09 £431,117). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

11. Investments

| | 2009/10 £'000 | 2008/09 £'000 |
|-----------------------------------|------------------|------------------|
| Equities | | |
| UK Quoted | 127,865 | 72,159 |
| Overseas quoted | 76,538 | 52,178 |
| | 204,403 | 124,337 |
| Fixed Interest Securities | | |
| UK Public | 20,512 | 15,112 |
| UK Private | 56,569 | 42,100 |
| Overseas Public | 1,568 | 0 |
| Overseas Private | 166 | 0 |
| | 78,815 | 57,212 |
| Index-Linked Securities | | |
| UK Public | 26,581 | 26,394 |
| UK Private | 761 | 632 |
| Overseas Public | 672 | 1,823 |
| Overseas Private | 257 | 53 |
| | 28,271 | 28,902 |
| Derivative Contracts | | |
| Futures | 6 | 14 |
| Forward FX Contracts | (84) | 94 |
| | (78) | 108 |
| Pooled Investment Vehicles | | |
| UK Managed Funds - Other | | |
| UK Quoted | 2,209 | 1,520 |
| UK Unquoted | 46 | 47 |
| Overseas | 8,877 | 4,651 |
| Property | 3,197 | 2,272 |
| UK Unit Trust | | |
| UK Property | 17,562 | 17,933 |
| | 31,891 | 26,423 |
| Cash Instruments | | |
| UK | 450 | 498 |
| | 450 | 498 |
| Cash Deposits | | |
| Managers | 4,239 | 4,025 |
| Futures Cash commitment | 41 | 27 |
| | 4,280 | 4,052 |
| Cash Deposits | | |
| Banks | 6,300 | 11,300 |
| | 6,300 | 11,300 |
| Short Term Investments | | |
| L.B. of Havering | 4,763 | 7,999 |
| | 4,763 | 7,999 |

11. Investments (continued)

| | 2009/10 £'000 | 2008/09 £'000 |
|--|------------------|------------------|
| Other Investment balances | | |
| Outstanding Sales | 1,017 | 2,096 |
| Investment income | 1,658 | 1,424 |
| Outstanding dividend and recoverable withholding tax | 899 | 850 |
| Outstanding Trades | (2,307) | (2,461) |
| Investment Income | 0 | (116) |
| | 1,267 | 1,793 |
| Total Investments | 360,362 | 262,624 |

12. Current Assets

| | 2009/10 £'000 | 2008/09 £'000 |
|---|------------------|------------------|
| Pension Grants | 16 | 16 |
| Contributions due from Employers | 345 | 229 |
| Contributions due from members interest | 85 | 81 |
| | 14 | 0 |
| Current Assets | 460 | 326 |

13. Current Liabilities

| | 2009/10 £'000 | 2008/09 £'000 |
|----------------------------|------------------|------------------|
| Unpaid Benefits | (17) | (18) |
| Accrued Expenses | (334) | (280) |
| Current Liabilities | (351) | (298) |

14. Related Party Transactions

There were no transactions with related parties other than those disclosed elsewhere within the accounts. During the year fees were paid to certain trustees for their services to the scheme. In 2009/10, £0.568m was paid to the Council for administration (£0.475m in 2008/09) and £19.194m (£18.046m in 2008/09) was paid by the Council to the Pension Fund in respect of employer's contributions. During the year no Member or Council officer with direct responsibility for pension fund issues has undertaken any declarable material transactions with the Pension Fund.

15. Actuarial Valuation

The Fund is subject to actuarial valuation every three years. The actuary is required to specify the employers' rates of contributions to the Fund to ensure that present and future commitments can be met.

The rate of employer's contributions paid by the Council in 2009/10 was 21.8% of pensionable pay as determined by the actuarial valuation of the Fund as at the 31st March 2007.

The most recent valuation of the Fund was carried out at the 31st March 2007. The actuary adopted a market value approach whereby assets were valued initially on a market value basis and liability assumptions were derived from gilt yields. Those assumptions, which have the most significant effect on the results of the valuation, are as follows:

| Assumptions | Rate |
|---|-----------------|
| Discount Rate for Period | |
| In Service: | |
| Admitted Bodies | 6.2% |
| Scheduled bodies | 6.2% |
| Left Service: | |
| Admitted Bodies | 5.2% |
| Scheduled bodies | 6.2% |
| Short term investment returns until 1 April 2011 | |
| Equity property assets | 7.2% |
| Other investments | 5.2% |
| Rate of general pay increases | 4.7% |
| Rate of increase in pension payments | 3.2% |
| Valuation of assets | Market Value |

The result of the 2007 valuation was that the value of the Fund's assets was actuarially assessed as £366.1m which was sufficient to meet 68% of its accrued liabilities of £534.6m. In order to meet 100% of future benefit liabilities, as required by Pension Fund regulations, it has been necessary to increase the employers' contribution rates over the three years of the actuarial valuation. The actuary's recommended employer's contribution rates for the Council were as follows:

| | Future Service % | Past Service % | Total % of Pensionable Pay |
|----------------------|------------------|----------------|----------------------------|
| April 08 to March 09 | 15.6 | 6.1 | 21.7 |
| April 09 to March 10 | 15.6 | 6.2 | 21.8 |
| April 10 to March 11 | 15.6 | 6.4 | 22.0 |

The next valuation of the fund as at 31 March 2010 will take effect from April 2011.