



Haverling

L O N D O N B O R O U G H

PENSIONS COMMITTEE AGENDA

5.30 pm

**Wednesday
12 December 2012**

**Town Hall, Main Road,
Romford**

Members 7: Quorum 3

COUNCILLORS:

**Conservative Group
(4)**

**Residents' Group
(1)**

**Labour Group
(1)**

**Independent
Residents' Group
(1)**

Melvin Wallace
(Chairman)
Becky Bennett (Vice-
Chair)
Eric Munday
Roger Ramsey

Ron Ower

Pat Murray

Jeffrey Tucker

Trade Union Observers

(No Voting Rights) (2)

John Giles, (Unison)
Andy Hampshire, GMB

**Admitted/Scheduled Bodies
Representative**

(Voting Rights) (1)

Marian Clay

**For information about the meeting please contact:
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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 DISCLOSURE OF PECUNIARY INTERESTS

Members are invited to disclose any pecuniary interest in any of the items on the agenda at this point of the meeting.

Members may still disclose any pecuniary interest in any item at any time prior to the consideration of the matter.

4 MINUTES OF THE MEETING (Pages 1 - 12)

To approve as correct the minutes of the meeting held on 2 and 31 October 2012 and authorise the Chairman to sign them.

5 AUTOMATIC ENROLMENT

Report to follow.

6 EXCLUSION OF THE PUBLIC

To consider whether the public should now be excluded from the remainder of the meeting on the grounds that it is likely that, in view of the nature of the business to be transacted or the nature of the proceedings, if members of the public were present during those items there would be disclosure to them of exempt information within the meaning of paragraph 1 of Schedule 12A to the Local Government Act 1972; and, if it is decided to exclude the public on those grounds, the Committee to resolve accordingly on the motion of the Chairman.

7 REVIEW OF INVESTMENT MANAGERS' PERFORMANCE FOR THE THIRD QUARTER OF 2012.

8 INVESTMENT STRATEGY REVIEW

**Ian Buckmaster
Committee Administration &
Member Support Manager**

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**MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Committee Room 3A - Town Hall
2 October 2012 (7.35 - 9.55 pm)**

Present:

COUNCILLORS

Conservative Group	Melvin Wallace (Chairman), Becky Bennett (Vice-Chair), Roger Ramsey and Georgina Galpin (in place of Eric Munday)
Residents' Group	Ron Ower
Labour Group	Pat Murray
Trade Union Observers	John Giles (UNISON)

Apologies were received for the absence of Councillor Eric Munday and Andy Hampshire (GMB).

All decisions were taken with no votes against.

The Chairman reminded Members of the action to be taken in an emergency.

8 THE ADMISSION OF FAMILY MOSAIC TO HAVERING'S PENSION FUND

The Committee were advised that Family Mosaic had won the contract to provide reablement services on behalf of the Council. The contract was for five years and would commence on 5 November 2012. When the service transfers to Family Mosaic the contracts of employment of 106 employees were due to be transferred from the London Borough of Havering to Family Mosaic. The Transfer of Undertakings (Protection of Employment) Regulations (TUPE) applied to the employment terms and conditions of the relevant employees except for pension rights. 106 of the employees concerned were members of the LGPS. In accordance with Government policy for Local Government employers, Family Mosaic were required to provide pension benefits for future service which were broadly comparable to those provided under the LGPS or to participate in the LGPS for the provision of pension benefits for the transferring employees.

Family Mosaic did not have a broadly comparable pension scheme and had applied for admitted body status to Havering's Pension Fund, solely for the benefit of the 106 transferred employees who were currently members of

the LGPS. If agreed, Family Mosaic would be admitted under a 'closed' agreement, whereby only those employees transferring at the time the contract became effective would be eligible to join.

The Pension Fund's Actuary had assessed the level of indemnity bond required as £3,646,000 although this would need to be finalised. The contribution rate set by the Actuary for membership was 24.6% of pensionable pay.

The Committee **AGREED** to admit Family Mosaic to Havering's Pension Fund, as an Admitted Body, to enable the 106 members of staff who transferred from the Council under TUPE to continue membership (or have the right of membership) of the Local Government Pension Scheme (LGPS) subject to:

1. All parties signing up to an Admission Agreement; and
2. An indemnity or insurance bond in an approved form with an authorised insurer or relevant institution, being put into place to protect the pension fund.

9 **BUSINESS PLAN/ANNUAL REPORT ON THE WORK OF THE PENSIONS COMMITTEE 2011/12**

The Committee were advised that to enable the Business Plan and Annual Report to be submitted to Council on 19 September 2012 the Chairman had approved the report.

The Committee **noted** the report.

The Committee again raised their concerns that not all members of the Committee were availing themselves of the training opportunities made available to all members. Officers reminded members that a CIPFA questionnaire had been circulated to all members to ascertain gaps in members' knowledge. This would be re-circulated as not all members had returned it, and it would also be circulated to named substitute members.

Officers indicated that specific training would be made available on the Pension Services Bill and the new regulations, once the new regulations were released. It was likely that training on the new regulations would need to be undertaken during the daytime. A general discussion on training took place and members were asked for their cooperation in identifying whether they prefer evening or daytime training. Members agreed to let officers know what time would be best for them to undertake training.

Members informed officers that they had found the training on Scheduled and Admitted Bodies very useful, but would like an extended session as they felt there was more to learn.

10 **EXCLUSION OF THE PUBLIC**

The Committee resolved to excluded the public from the meeting during discussion of the following item on the grounds that if members of the public were present it was likely that, given the nature of the business to be transacted, that there would be disclosure to them of exempt information within the meaning of paragraph 3 of Schedule 12A to the Local Government Act 1972 which could reveal information relating to the financial or business affairs of any particular person (including the authority holding that information) and it was not in the public interest to publish this information.

11 **PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 30 JUNE 2012**

Officers advised the Committee that the net return on the Fund's investments for the quarter to 30 June 2012 was -2.3%. This represented an under performance of -1.1% against the combined tactical benchmark and an under performance of -9.1% against the strategic benchmark. The net return for the year to 30 June 2012 was 0.3%. This represented an underperformance of -1.8% against the annual tactical combined benchmark and an under performance of -23.4% against the annual strategic benchmark.

The Committee were advised that after a strong start to the year UK Equities had fallen in the second quarter. In a volatile quarter the Eurozone crisis and signs of slowing global economical growth undermined market confidence and investors sought safety. Political turmoil in Greece, banking problems in Spain and a change of Government in France added to market uncertainty. There had been no change in UK interest rates at 0.5% and inflation was continuing to fall.

a) Hymans Robertson (HR)

HR advised the Committee that an intriguing mix of political, economic and financial factors had contributed to a sense of crisis throughout the quarter. Political uncertainty in Greece, and the burden of debt in certain European nations (particularly Spain and Greece), had threatened the viability of the Euro which, not for the first time, seemed close to 'collapse'. The newly elected President of France had challenged the established consensus on how to deal with difficulties in the Eurozone, by promoting a switch in emphasis from austerity to growth.

The deteriorating global economic backdrop had offered little solace to investors, with the UK, and much of Europe, falling into recession, mixed data in the US and reduced activity in China. Nevertheless, the difficulties of

the Eurozone were widely cited as the greatest threat to global economic activity.

In the UK, the Bank of England had cut its economic growth forecast for 2012, from 1.2% to 0.8%. This compared with an average of 0.3% made by 'independent' forecasters and just 0.1% by the British Chamber of Commerce. In June, the Chancellor of the Exchequer had announced a £100bn support programme for the economy, with a 'funding for lending' scheme at its core. The Governor of the Bank of England had hinted that short-term interest rates might be cut to zero, in order to stimulate the economy.

Key events during the quarter were:

Global Economy

- EU had agreed €100bn 'bailout' facility for Spanish banks.
- Ratings agencies had cut credit ratings of UK, European and US banks.
- Short-term interest rates had remained unchanged in the UK, US and Eurozone.
- China had cut key interest rate on concerns over prospects for economic growth.
- France, Germany, Italy and Spain had agreed €130bn economic growth package.

Equities

- Equities were highly volatile, reflecting the ebb and flow of economic and financial news.
- The strongest sectors relative to the 'All World' Index were defensives - Telecoms (+8.4%) and Health Care (+7.3%); the weakest were cyclical - Basic Materials (-6.3%) and Oil & Gas (-3.7%).

Bonds

- Yields on UK, German and US government bonds had reached record lows in early June on continued flight to safety.
- Borrowing costs for Spain and Italy had risen to levels not sustainable in the long term.

The bailout of Spanish banks and other 'rescue' packages had dealt effectively with the immediate crisis in the Eurozone. The longer term outlook remained uncertain. Much depended on the recently agreed EU fiscal treaty and proposed Europe-wide banking supervision.

HR advised the Committee of the performance of the individual Fund managers. Details are available in the exempt minutes.

b) Royal London (RLAM)

Paul Rayner (Head of Government Bonds) and Fraser Chisholm (Client Services Manager) attended the meeting to deliver a presentation on their performance in Quarter 1. Details are available in the exempt minutes.

c) Standard Life (SL)

David Cumming (Executive Director, Head of Equities) and Dale MacLennan (Investment Director, Global Account Management) attended a meeting to deliver a presentation on their performance in Quarter 1. Details are available in the exempt minutes

d) Miscellaneous

The Committee **noted:**

1. Hymans' performance monitoring report and presentation;
2. the presentations from the Funds UK Equities Manager (Standard Life) and the Funds Investment Grade Bonds Manager (Royal London);
3. the summary of the performance of the Pension Fund as set out in the report;
4. the quarterly reports provided by each Investment Manager;
5. that there were no Corporate Governance issues arising from the voting as detailed by each manager;
6. that UBS have appointed a new portfolio Manager – Howard Meaney who had joined the team on 17 September 2012; and
7. that there would be no further draw downs of funds to supplement the cash balances pending the outcome of the Investment Strategy Review.

12 INVESTMENT STRATEGY REVIEW UPDATE

The Committee considered a report from the Fund's Investment Advisers regarding the direction the Investment Strategy should take.

Chairman

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Public Document Pack

MINUTES OF A MEETING OF THE PENSIONS COMMITTEE Town Hall, Main Road, Romford 31 October 2012 (7.30 - 8.05 pm)

Present:

COUNCILLORS

Conservative Group Melvin Wallace (Chairman), Becky Bennett (Vice-Chair), Eric Munday and Roger Ramsey

Residents' Group Clarence Barrett (In place of Ron Ower)

Trade Union Observer Andy Hampshire

Apologies were received for the absence of Councillors Pat Murray, Ron Ower and Jeffrey Tucker and of John Giles Trade Union Observer.

The Chairman reminded Members of the action to be taken in an emergency.

13 **MINUTES OF THE MEETING**

The minutes of the meetings of the Committee held on 27 June, 30 August and 25 September, including the exempt minutes for the meeting held on 27 June 2012, were agreed as a correct record, subject to the addition of Councillor Munday's apologies for the meeting held on 27 June 2012, and signed by the Chairman.

14 **WHISTLEBLOWING REQUIREMENTS OF THE PENSIONS ACT**

Since April 2005 the Committee had been advised annually of any breaches of the law 'relevant to the administration of the pension scheme'. Each year the Group Director of Finance and Commerce undertook a review of the procedures in place to facilitate the reporting of any breaches.

The Committee **noted** that there was no need to amend the existing procedures, nor had there been any breaches in the last 12 months.

15 **REVIEW OF THE PENSION FUND ACTUARY SERVICES 1ST APRIL 2010 - 31ST MARCH 2012**

The Committee were advised that Hymans Robertson had been appointed as the Pension Fund Actuaries with effect from 1 April 2010. This was the first review of their performance. Since April 2010 the Actuaries had undertaken the following:

- (a) Completed the 2010 triennial actuarial valuation;
- (b) Attended the Pensions Committee and officer level meetings;
- (c) Provided data to the fund's investment adviser in preparation for their Asset Liability modelling;
- (d) Provided data for government departments;
- (e) Produced a revised Internal Dispute Resolution Process Guide and form;
- (f) Delivered Member training; and
- (g) Provided the calculation and provision of contribution rate assessments relating to the seven new Academies during 2011-12.

Officers advised the Committee that Hymans had delivered all relevant services in both a timely way and to a good quality.

The Committee asked whether the cost of providing the calculation and provision of contribution rate assessments for the seven new Academies during 2011-12 could be recovered from the Academies. Officers were asked to look into the position and advise members of the outcome.

The Committee **noted** the views of officers and that in future they would receive annual reviews of the Actuaries' performance.

16 **REVIEW OF THE PENSION FUND CUSTODIAN**

Officers had undertaken an annual review of the performance of the Pension Fund's Custodian - State Street, for the period April 2011 to March 2012. The Global Custodian - State Street operated a wide range of functions. These fell into two main categories:

- Safe Keeping and Custody, and
- Investment Accounting and Reporting.

State Street was required to maintain accurate records and certificates of the ownership of stock, and ensuring that dividend income and other distributions were received appropriately. They were also responsible for producing accounting records, which were considered to be the master records and used for accounting purposes. The reports were produced in a format to meet the needs of the Statement of Recommended Practice.

Officers advised the Committee that they were satisfied with the service provided by State Street and were pleased with the continued improvements made to the investment accounting and reporting functions.

Attention was drawn to the reduction in fees from £120,749 in 2010/11 to £56,051 in 2011/12. Officers explained that this was mainly attributable to not using an Active Global Fund Manager during 2011/12, and no fees for custody or transaction charges.

The Committee **noted** the report and asked officers to provide further details on the reduction in fees.

17 **REVIEW OF INVESTMENT ADVISOR**

The Committee considered their first review of the performance of the Investment Adviser, Hymans since their appointment in April 2012. Although Hymans has been the Fund's advisors since April 2006 they had changed the individual advisor who is assigned to the Council's Pension Fund just before being awarded the new contract.

When the new contract was awarded a set of criteria was defined as part of the specification. These were:

- Attendance at Committee Meetings
- Investment Advice
 - Setting Investment Strategy
 - Investment Management structure
 - Appointing an investment Manager
 - Monitoring an investment Manager
 - Other responsibilities (advising on statement of investment principles, custody, setting investment guidelines etc.)
- The value they will/could add to the decision making process
- The level of Pro-Activity expected from the adviser
- Support arrangements

In addition officers had selected other criteria against which the advisors should be assessed against. They were:

- Communications and advice are clear, timely, accurate, challenging and comprehensive
- Provision of advice to officers and members include comprehensive options and is encouraged to test the alternatives to decisions being made
- A partnership approach to reaching investment decisions

Officers informed the Committee that Hymans were fulfilling all these criteria.

The Committee **noted** the report.

18 **REVIEW OF GOVERNANCE COMPLIANCE STATEMENT**

Each year the Council as administering authority had a duty to review the Pension Fund's Governance Compliance Statement. The committee gave consideration to the following key points:

Listed below are the areas where the authority was currently not fully compliant. The Committee were informed that the authority did not have to be fully compliant but where it was not the authority had to state why.

- **Principle B Representation Item (a) (iii)** – To meet the required standards all stakeholders were afforded the opportunity to be represented by, where appropriate, appointing independent observers. Members had previously considered whether or not to employ the services of an independent professional observer to participate in the governance arrangements and had decided against it on the basis that the current monitoring arrangements were sufficient for the size of the fund. They did not see any reason to change this decision.

Having considered the report and noted the tracked changes to the Governance Compliance Statement the Committee **approved** the Statement as submitted.

19 **PENSION FUND ANNUAL REPORT -YEAR ENDED 31 MARCH 2012**

The Committee gave consideration to the Pension Fund Annual report for the year ended 30th April 2012. The Committee questioned officers about inter alia, the performance indicators, especially those relating to the percentage of 'Transfers In' actuals processed within 15 days which were well below the target. The Group Director Finance and Commerce agreed to provide Members with an explanation for this figure. In addition officers were asked for explanations around the issue of cash flow and it was agreed these would be provided following the meeting. Similarly questions were asked about the relationship between Foreign Exchange Profits/(Losses) and derivatives. Again officers agreed to provide the required information following the meeting.

The Committee looked carefully at the assumptions made in the Actuarial valuation and given the current extraordinary financial situation asked that the actuaries be asked to review their assumptions, specifically regarding future pay increases.

The Committee **agreed:**

1. the 2011/12 Pension Fund Annual Report;
2. that the Pension Fund Annual Report be published electronically; and
3. to authorise the Chairman and Group Director of Finance and Commerce to formally sign off the Annual Report.

Chairman

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