

**MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Committee Room 3A - Town Hall
24 November 2015 (7.00 - 7.58 pm)**

Present:

COUNCILLORS

Conservative Group John Crowder (Chairman), Melvin Wallace and Roger Westwood

Residents' Group Stephanie Nunn and Ray Morgon

East Havering Residents' Group Clarence Barrett

UKIP Group David Johnson (Vice-Chair)

Admitted/Scheduled Bodies Representatives: Heather Foster-Byron

Trade Union Observers: John Giles

All decisions were taken with no votes against.

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

17 MINUTES OF THE MEETING

The minutes of the meeting held on 22 September 2015 were agreed as a correct record and signed by the Chairman.

18 COMMUNICATIONS STRATEGY

Officers have reported that in accordance with Regulation 61 of the Local Government Pensions Scheme Regulations 2013 the Pension Team's Communication Strategy has been reviewed and up dated. The revised strategy would cover a three year period commencing 2016. The statement had to set out the following:

- Communications with members, representatives, prospective members and employing authorities;
- The provision of information and publicity about the scheme, to the above;
- Format, frequency and method of distributing such information, or publicity; and

- The promotion of the scheme to prospective members and their employers.

The Strategy has been prepared to communicate with the various stakeholders in a clear, plain English manner with as little jargon as possible. It also aimed to utilise modern media that was cost effective and efficient, placing emphasis on greater use of the pension website www.yourpension.org.uk/handr, as well as electronic notifications.

Officers have advised that the use of Member Self Service for access to pension records was intended to be rolled out in this financial year, which should free up Pension Administration team member time and also save on postage costs.

The Committee has considered and **approved** the Pension Team's Communications Strategy for the 3 year period 2016 - 2018.

19 **REVIEW OF ACTUARIAL SERVICES**

Officers have reported that they have undertaken a review of the performance of the Pension Fund's Actuary, Hymans Robertson, for the period 1 April 2014 - 30 September 2015. Since April 2015 the Actuary had undertaken the following:

- (a) Attended officer level meetings;
- (b) Provided data for government departments;
- (c) Delivered Member training –
 - i. Pensions Committee Induction 24 June 2014;
 - ii. Local Pension Board Induction Training 8 June 2015;
- (d) Provided the actuarial statement for the statement of accounts;
- (e) Produced a mid-valuation funding update report;
- (f) Participated in the setting up of Local Pension Board;
- (g) Produced 'like for like' analysis of 2013 valuation;
- (h) Produced IAS19 disclosure for the London Borough of Havering and FRS17 disclosures for the Colleges and Academies;
- (i) Produced a report on workforce modelling (potential impact on the fund for changes in payroll and staffing);
- (j) Provided modelling for 'Freedom and Choice' and fund implications;
- (k) Provided actuarial factors to calculate the strain costs of early or ill health retirements;
- (l) Provided the calculation and provision of contribution rate assessments relating to -
 - i. 4 new Academies and 1 Technical College during 2014-15. Plus 1 new Academy and 1 Free School up to September 2015;
 - ii. Provision of pension information memorandum including potential bond and employer rates for Leisure Services contract renewal;

- iii. Bond rates and employer rates for Academies outsourcing contracts for traded Catering Services;
- iv. Provision of newsletters and help with publications including, Discretions, TUPE manual, Freedom and Choice, High Earner and Changes to pension taxation factsheets;
- v. Regular legislative updates, 60 second briefings.

Additionally, Hymans Robertson have been appointed to carry out Stage One of the Internal Disputes Resolution Procedure, and have reviewed one case in the period April 2014 to September 2015.

The cost of the actuarial services were:

- 1 April 2014 to 31 March 2015 £29k
- 1 April 2015 to September 2015 £18k

In addition, fees, including actuarial work have been recharged to other employees within the fund, as follows:

- 1 April 2014 to 31 March 2015 £17k
- 1 April 2015 to September 2015 £25k

The Committee were advised that Officers were very satisfied with the services provided by Hymans Robertson and accordingly have **noted** the report.

20 **REVIEW OF PENSION FUND CUSTODIAN**

Officers have informed that Committee that they have undertaken a review of the performance of the Pension Fund's Custodian, State Street. State Street have performed the role of Custodian since 31 December 2004. The role of the Global Custodian falls in to two main categories:

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

- **Safe Keeping and Custody**

This referred to the maintenance of accurate records and certificates of the ownership of stock and ensuring that dividend income and other distributions were received appropriately. The Custodian have also managed the tax position of the fund, claiming back any recoverable overseas, withholding tax paid on dividends received and maintaining the tax records of the fund.

- **Investment Accounting and Reporting**

State Street have produced accounting reports that were similar to those produced by the fund's investment managers. They have kept a record of

the book costs and the holdings in the various asset classes and have also provided an independent market valuation of the fund. This has been done for each of the investment managers' portfolio as well as at the total fund level. State Street records have, therefore, been considered to be master records and these records have been used for producing the accounts. Reports currently produced by State Street have been in a format that could be used to comply with the International Financial Reporting Standards (IFRS).

Performance has been reviewed against a number of set criteria and Officers have indicated that they were satisfied with the safe keeping and custody functions provided by State Street custodians and have been pleased with the investment accounting and reporting functions.

Officers have expressed one minor concern which was that State Street have been dilatory in presenting invoices.

The Committee have been advised that the cost of the custodian service has been reduced in recent years due to the fund's use of pooled funds which consequently have reduced the custody and transaction charges.

The Committee has **noted** the report.

21 **REVIEW OF PENSION FUND INVESTMENT ADVISOR**

Officers have reported that they have carried out a review of the services provided by the Pension Fund's Investment Advisor, Hymans Robertson, for the period September 2014 to September 2015.

Myner's principles number 2 recommended that the Committee, in setting out its overall objective for the Fund, should take proper advice and appoint advisors in open competition. Hymans Robertson was appointed in 2012 and the contract runs until 31st March 2017 unless terminated or extended by the Council in accordance with the terms of the contract.

In accordance with Myner's Principal number 4 the Committee have to undertake an annual assessment of the performance of the Investment Advisor.

The services provided by Hymans Robertson have been generally in relation to the core services which included production of quarterly monitoring performance reports, attendance at Pensions Committee and providing questions for officer meetings with fund managers, investment advice and monitoring of fund managers. Additionally, Hymans Robertson have carried out a tendering exercise to search for a replacement multi asset manager. They have also undertaken a review of the passive equity mandate and bonds mandate. These additional tasks represented an extra cost to the fund.

The assessment of the service was against a set of criteria defined as part of the tender specification as set out below:

- 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; and
- Support arrangements.

The cost of the Investment Advisor for the period October 2014 to September 2015 has been £65,940, £28,382 for core services and £37,558 for the additional services. The cost of the additional services has been kept within budget.

Both officers and the Committee had indicated that they were satisfied with the service provided by Hymans Robertson and had continued confidence in the advice being given.

The Committee **noted** the report.

22 **REVIEW OF THE STATEMENT OF INVESTMENT PRINCIPLES**

The Committee were informed that in line with the Local Government Pensions Scheme Regulations (LGPS) and good practice the Council as an administrating authority had undertaken a review of the Statement of Investment Principles (SIP).

The statement had to cover the administrating authority's policy on:

- (a) the types of investment to be held;
- (b) the balance between different types of investments;
- (c) risk, including the ways in which risks are to be measured and managed;
- (d) the expected return on investments;
- (e) the realisation of investments;
- (f) the extent (if at all) to which social, environmental or ethical considerations are taken into account in the selection, retention and realisation of investments;
- (g) the exercise of the rights (including voting rights) attaching to investments, if the authority has any such policy; and
- (h) stock lending.

Officers have informed the Committee that the main changes were:

- a) Reformatting the document and adding a contents page.
- b) Updating the table showing the allocation of assets to managers by including two new columns to show that the mandates were the segregated or pooled elements and whether the mandate was active or passive,
- c) Social Environmental and Ethical Considerations statement had been updated.

The Social Environmental and Ethical Considerations statement had been amended as follows:

“The Pensions Committee has carefully considered socially responsible investment in the context of its legal and fiduciary duties and obligations. In view of the objectives set out in this statement, the Pensions Committee takes the view that, non-financial factors should not drive the investment process to the detriment of the financial return of the Fund.

Whilst at this time the Pensions Committee has determined not to place any restrictions on Investment Managers for ethical, social and environmental reasons, the Pensions Committee considers it appropriate for the Investment Managers to take such factors into account when considering particular investments.

The Pensions Committee also believes that it does not have the relevant expertise or capacity to make frequent assessment of the financial impact of companies’ activities. To that extent, the Pensions Committee has a policy of non-interference and the Investment Manager has full discretion over day to day decision making.”

Officers have advised the Committee that the SIP was only partially compliant with Myner’s Principle number 5 ‘Responsible ownership.’ In the past the Committee have accepted the principles laid down in the ‘Institutional Shareholders Statement of Responsibilities’ but this has been replaced by the ‘UK Stewardship Code’.

The Committee has:

1. **Agreed** the amendments to the Statement of Investment Principles, subject to the final version including the minor changes that were omitted in the distributed version;
2. **Agreed** the administering authority’s position in respect of compliance against the Myner’s investment principles; and
3. **Agreed** that officers produce a further report on the implications of compliance with the UK Stewardship Code.

Officers have informed the Committee that in line with the Local Government Pensions Scheme Regulations (LGPS) 2013 (as amended), and LGPS (Governance) Regulations 2015 the Council as an administering authority has a duty to keep the Governance Compliance Statement under review and make revisions as appropriate.

Since the 1 April 2008 it has been a requirement for the administering authority to prepare and publish a report outlining the extent of compliance against a set of best practice principles published by the Department of Communities and Local Government (DCLG).

The report has set out the Pension Fund's draft Governance Compliance Statement for November 2015 and has highlighted where changes might be required.

Changes to the Statement have been made to reflect the fact that the Council has established a Local Pension Board in accordance with Regulation 106 of the LGPS (Governance) Regulations 2015. Under the same regulations the Local Government Pension Scheme Advisory Board has been established to provide advice to the Secretary of State on the desirability of making changes to the Scheme and providing advice to administering authorities and local pension boards in relation to the effective and efficient administration and management of the scheme.

Officers have highlighted the fact the Statement was not fully compliant against the set of best practice principles. Principle B - Representation item (a) (iii) stated that 'to meet the required standards all stakeholders are offered the opportunity to be represented by, where appropriate, appointing independent observers.'

The Committee have **reaffirmed** their previous decision not to employ the services of an independent professional observer on the basis that the current monitoring arrangements were sufficient for the size of the funds.

The Committee have **agreed** the Statement as amended.

24 **KNOWLEDGE AND SKILLS TRAINING STRATEGY**

The Committee have been advised that previously the values outlined in the Training Strategy have been outlined in the Business Plan. It has been felt that now was the right time to agree a separate Training Strategy for the Havering Pension Fund. The Strategy would assist the Pensions Committee and Local Pension Board achieve their training objectives and introduce a means of measuring progress and achievements.

The Local Government Pension Scheme (LPGS) (Management and Investment of Funds) Regulations 2009 regulations, paragraph 12(3) stated that administering authorities must prepare and publish a statement which stated the extent to which an administering authority complied or did not comply with guidance issued by the Secretary of State. Where it did not

comply it must state reasons for non-compliance. (This was known as the Myner's principles).

The first of these principles, Effective decision making, required that Administrating authorities should ensure that:

- Decisions were taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and
- those persons or organisations had sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest

Guidance as issued from the Secretary of State would be the guidance as published by the Chartered Institute of Public Finance and Accountancy (CIPFA) in January 2010 called 'Pensions Finance Knowledge and Skills Framework' and then later formalised into a Code of Practice in October 2011, effective from 1 April 2012. This Code of Practice was updated in July 2013 to reflect the Public Service Pensions Bill and effective for financial years beginning on or after 1 April 2014.

The Administering Authority must also disclose in their Annual Report a statement to demonstrate compliance with the code of practice, such as a report on member training undertaken during the year (if not reported elsewhere).

In line with The Public Service Pensions Act 2013 the Pensions Regulator had issued a code of practice "Governance and Administration of Public Service Pension Schemes" which required pension board members by law:

- to be conversant with the rules of the scheme and any document recording policy about the administration of the scheme, and
- have knowledge and understanding of the law relating to pensions, and any other matters which are prescribed in regulations.
- The degree of knowledge and understanding required was that appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the Pension Board.
- it was the responsibility of individual pension board members to ensure that they have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the Pension Board.

Guidance has also been issued by the then Shadow Scheme Advisory Board in February 2015 and included guidance that stated that Local Pension Board members:

- should establish and maintain a policy and framework to address the knowledge and understanding requirements that apply to its members. Where the Pensions Committee had an existing knowledge and understanding policy already in place, it may be sensible to see if this could be incorporated to cover both the Pensions Committee and the Local Pension Board to avoid unnecessary duplication,
- would be required to undertake a personal training needs analysis and regularly review their skills, competencies and knowledge to identify gaps or weaknesses, and
- were required to be able to demonstrate their knowledge and understanding and to refresh and keep knowledge up to date and required to maintain a written record of training and development.

The Committee has been informed that CIPFA's Knowledge and Skills Framework covered six relevant areas of knowledge for members of decision making bodies, namely:

- Pensions Legislative and Governance Context;
- Pensions Accounting and Auditing Standards;
- Financial Services Procurement and Relationship Management;
- Investment Performance and Risk Management;
- Financial Markets and Products Knowledge; and
- Actuarial Methods, Standards and Practices.

To assist in achieving the training strategy objectives the fund should aim for full compliance with the CIPFA Knowledge and Skills Framework as shown in the six areas above and they would form the core skill sets against which progress and achievement would be measured. The Fund would also aim to comply with the knowledge and skills element of The Pensions Regulator Code of Practice and any other appropriate LGPS guidance relating to knowledge and skills.

CIPFA Knowledge and Skills framework included a self-assessment of training needs. This would be issued to the Local Pension Board members and reissued to members of the Pensions Committee. This would be used to identify the knowledge and skills gap so that training could be targeted to specific areas.

The CIPFA's Knowledge and Skills Framework self-assessment form would also become a personalised training plan for each member and would be used to document areas of learning and continued development. These would be monitored annually and progress and achievements would be reported in the pension fund annual report.

The Committee have:

1. **Approved** the Havering Pension Fund Training Strategy;
2. **Approved** the basis for measuring progress and achievement; and
3. **Noted** that it was the responsibility of each committee member, board member and officer to adhere to the training strategy and maintain the required level of knowledge and skills.

25 **WHISTLEBLOWING REQUIREMENTS OF THE PENSIONS ACT**

The Committee have been reminded that on 6 April 2005 the whistle blowing requirements of the Pensions Act 2004 had come into force. The basic requirement of this law was that nearly all persons who were involved with a pension scheme had a duty to report 'as soon as reasonably practicable' to the Pensions Regulator where they had 'reasonable cause to believe' that there had been a breach of law 'relevant to the administration of the scheme' which was 'likely to be of material significance to the Regulator'. The Pensions Regulator had issued a Code of Practice (CP1) that set out guidance on how to comply.

The Code has discussed each of these issues, in particular what the regulator saw as materially significant.

For administering authorities and employers, an initial requirement had been to establish procedures to identify any breaches, and then evaluate and if appropriate report to the Regulator. These have been put in place during 2005 and part of this procedure was to undertake an annual review. This report represented the annual review for the year up to 30 September 2015.

Since the requirement had come into force on the 5 April 2005, no possible breaches have been reported to the Deputy Chief Executive Communities and Resources.

The Committee have **noted** the report.

26 **COLLECTIVE INVESTMENT VEHICLE (CIV)**

In accordance with section 100B(4) of the Local Government Act 1972 the Chairman has agreed that the following item should be considered as the Pensions CIV Sectorial Joint Committee required a decision before the next meeting of the Pensions Committee.

Officers have informed the Committee that the CIV has now gained all the FCA approvals it required to commence business. Four Fund Managers have indicated they would be interested in participating, one of whom was Baillie Gifford who managed two of the Pension Fund mandates. They have indicated that they were prepared to offer lower management fees provided all the administering authorities currently investing with them joined the sub-fund.

Pensions Committee, 24 November 2015

After discussion and debate the Committee have indicated their intention to move the Baillie Gifford mandates to the CIV, subject to our Investment Advisors carrying out due diligence on documentation.

Chairman