

PENSION FUND COMMITTEE

MINUTES

29 JULY 2014

Chairman:	* Councillor Keith Ferry	
Councillors:	* Barry Macleod-Cullinane	* Bharat Thakker
	* Adam Swersky	
Co-optee (Non-voting):	* Howard Bluston	Steve Compton
		† Pamela Belgrave
Adviser (Non-voting):	* Colin Robertson	* Honorary Alderman Richard Romain

[Note: Mr Colin Cartwright of Aon Hewitt attended in an advisory role, as the Council's Adviser.]

- * Denotes Member present
- † Denotes apologies received

1. Attendance by Reserve Members

RESOLVED: To note that there were no Reserve Members in attendance.

2. Declarations of Interest

Agenda Item 8 – London Pensions Collective Investment Vehicle

Councillor Barry Macleod-Cullinane declared a non-pecuniary interest in that he was an adviser at London Councils when the Collective Investment Vehicle (CIV) was discussed. He would remain in the room whilst the matter was considered and voted upon.

Agenda Item 11 – Information Report – LBH Pension Fund – Annual Report 2013-14; Agenda Item 17 – Information Report – Investment Manager Monitoring; Agenda Item 18 – Information Report – Performance of Fund Managers for Quarter Ended 31 March 2013

Councillor Bharat Thakker declared a non-pecuniary interest in that he had a Standard Life pension. He would remain in the room whilst the items were considered and voted upon.

Agenda Item 8 - London Pensions Collective Investment Vehicle; Agenda Item 9 – Appointment of Independent Advisers; Agenda Item 10 – Statement of Policy on Employer Discretions Under the Local Government Pension Scheme Regulations; Agenda Item 11 – Information Report – LBH Pension Fund – Annual Report 2013-14; Agenda Item 12 – Information Report – Update Report and Action Points from Previous Meetings; Agenda Item 15 – Upgrade of Pensions Administration System; Agenda Item 16 – Severance Payments of £100,000 or Greater; Agenda Item 17 – Information Report – Investment Manager Monitoring; Agenda Item 18 – Information Report – Performance of Fund Managers for Quarter Ended 31 March 2013

Howard Bluston declared a non-pecuniary interest in that he attended the NPF Committee and had associated with an Aon Hewitt member of the board. He would remain in the room whilst the items were considered and voted upon.

Councillor Barry Macleod-Cullinane declared a non-pecuniary interest in that he was a member of the Local Government Pension Scheme (LGPS) for London Councils. He would remain in the room whilst the items were considered and voted upon.

3. Appointment of Vice-Chairman

RESOLVED: To appoint Councillor Bharat Thakker as Vice-Chairman of the Pension Fund Committee for the 2014/2015 Municipal Year.

4. Minutes

RESOLVED: That the minutes of the meeting held on 19 March 2014, be taken as read and signed as a correct record.

5. Public Questions, Petitions and Deputations

RESOLVED: To note that no public questions were put, or petitions or deputations received at this meeting.

RECOMMENDED ITEMS

6. London Pensions Collective Investment Vehicle

Further to the last meeting, at which it was resolved to defer a decision as to whether to join the Collective Investment Vehicle (CIV), the committee received a report of the Director of Finance and Assurance which set out the latest developments on the establishment of the CIV.

Members discussed the structure and governance of the CIV and views were expressed regarding whether:

- the London Council's Leaders Committee had sufficient in depth training on, and knowledge of, pensions management administration;
- there was sufficient information to confirm that the CIV would be autonomous;
- Authorities could be joining due to the belief that the Government would otherwise require pension funds to invest in certain schemes;
- other London Boroughs were joining without compulsion, could withdraw at a later date. The scheme had the benefit of the scale of economies together with enormous benefits for ratepayers by way of a reduction in contributions.

It was noted that:

- the governance structure enabled the Chairman of the Pension Fund Committee to represent Harrow Council on the committee that would decide on the ACS operator and investment managers;
- there would be no loss of sovereignty as membership would enable participation without having to invest;
- if Harrow Council did not become a shareholder there would be less ability to contribute to development of the CIV;
- whilst the representatives of the subscribing Councils would take the lead, Harrow Council would have the ability to invite fund managers to Harrow and to invest with the asset managers of its choice.

The Committee was advised that:

- consideration should be given to the benefits of passive or active management. There needed to be a clear mandate, discussion on the number of managers and how specialist the mandate should be;
- in order to obtain FCA regulation a formally constituted oversight committee was required. The committee would procure management services, receive set up costs, with one representative from each

signed up Borough involved in decision-making. The Council would not obtain a seat on the joint committee table if it was not involved in the set up;

- at the NAPF Local Government Conference it was made clear that there would be no coercion to join or penalties;
- the Leader of the Council had attended the London Councils meeting held on 15 July.

Members supported involvement in the meetings at member and officer level to ascertain the governance arrangements with a further report to the November meeting.

Resolved to RECOMMEND: (to Council)

That the Council:

- (1) becomes a shareholder in a private company limited by shares which will be incorporated to be the Authorised Contractual Scheme Operator (the “ACS Operator”) of the Collective Investment Vehicle;
- (2) contribute £1 to the ACS Operator as initial capital;
- (3) delegate to the Chairman of the Pension Fund Committee authority to act for the Council in exercising its rights as a shareholder of the ACS Operator and to authorise the Vice Chairman of the Pension Fund Committee to act in his absence and;
- (4) agree to join the London Boroughs’ “Pensions CIV Joint Committee” to be formed under Section 102 of the Local Government Act 1972 and to delegate to such Joint Committee those functions necessary for the proper functioning of the ACS Operator, including the effective oversight of the ACS Operator and the appointment of Directors.

RESOLVED: That, subject to the Council agreeing the above recommendations:

- (1) the Director of Finance and Assurance be authorised to consider any requests for additional capital and, if he assesses that a capital commitment is likely to be beneficial to the Pension Fund, to seek agreement from the Committee;
- (2) £25,000 be contributed to be used to commission specialist expert professional advice associated with the development of the proposed CIV.

RESOLVED ITEMS

7. Appointment of Independent Advisers

The Committee received a report on the process undertaken for the appointment of independent advisers, the role description and terms and conditions.

Further consideration would be given to the requirement for the successful applicants to obtain Professional Indemnity Insurance at an appropriate level but it was agreed that the Fund would reimburse any costs.

RESOLVED: That Mr Colin Robertson and Honorary Alderman Richard Romain be appointed as independent advisers to the committee at a fee of £15,000 per annum.

8. Statement of Policy on Employer Discretions under the Local Government Pension Scheme Regulations

The Committee was informed that the introduction of the new Local Government Pension Scheme (LGPS) from 1 April 2014 required the Council to publish a pensions policy statement on discretions contained within the LGPS regulations.

Consideration was given to a report of the corporate Director of Resources which summarised the pension policies that needed to be reviewed and made recommendations for the adoption of new pension policy statements.

In response to questions, it was noted that:

- the 85 year rule had been used on approx 50 or 60 occasions in the past five years, using a sliding scale of reductions;
- exceptional circumstances could not be qualified until the examination of each individual case.

Concern was expressed that the trade union observers were not in attendance and that no comments had been received from the unions.

It was noted that the Council had delegated to the Committee consideration where a severance payment amounted to £100,000 or more as this often involved an impact on the Pension Fund. As all costs would now be funded from revenue, Members considered that delegation should be to the Leader of the Council or Portfolio Holder, or revert to the Chief Officer Employment Panel, with a report on action taken to the Council.

RESOLVED: That

- (1) an additional pension be awarded only in exceptional circumstances;

- (2) contribution to a Shared Cost APC arrangement be only in exceptional circumstances;
- (3) the Council's current Flexible Retirement Policy be amended as set out in paragraphs 2.18 and 2.19 of the report;
- (4) the policy on the 85 year rule and the waiving of any actuarial reduction be as follows:
 - a. consideration be given to all requests for the application of the 85 year rule or the waiving of any actuarial reduction, in part or full;
 - b. approval only be granted if it is in Harrow's best financial interest to do so and where the service area can demonstrate operational efficiencies;
 - c. there should be no cost to the pension fund. Any expenditure must be met by the service area;
 - d. the waiving of any early retirement actuarial reduction (either in part or in full) on compassionate grounds and/or on any grounds will only be considered in exceptional circumstances;
 - e. subject to 5. below, requests must be approved by a Director and agreed by the Officer Sub Group in consultation with the Portfolio Holder for Finance and Major Contracts;
- (5) the DCLG guidance be noted and consideration be given to the most appropriate delegation of the function to consider severance payments of £100,000 or more.

9. Information Report - LBH Pension Fund - Annual Report 2013-14

Consideration was given to the draft London Borough of Harrow Pension Fund Annual Report 2013-14. An officer informed the Committee that: appendices 1 and 2 were under review and the committee would be updated; appendix 3 and 5 were fine, appendix 4 was appropriate for the purposes of the 2013-14 annual report but 2014-15 would be submitted to the Committee at its September meeting.

Members requested amendment to the report to reflect the fact that the Committee did not undertake tactical investment but concentrated on strategic approaches. It was also stated that 12% of illiquid assets was not low for a scheme that continued to have a positive cash flow.

RESOLVED: That

- (1) the report be noted and it be noted that the officers were reviewing some appendices before finally signing it off;

- (2) the second sentence of the first bullet point on page 14 of the report be deleted;
- (3) the third sentence of the first bullet point on page 14 of the report be amended to read 'The investment strategy is reviewed regularly by the Pension Committee and market conditions are reviewed to monitor performance at every meeting to determine if any strategic action is required'.

10. Information Report - Update Report and Action Points from Previous Meetings

The Committee received the report of the Director of Finance and Assurance which provided an update on actions taken and other developments since the last meeting.

Due to the changes in the Committee's membership it was agreed to review the appointment of Lead Members for specific topics within the purview of the Committee. In addition, Members considered it beneficial to attend training sessions on selected subjects for an hour prior to the Committee meeting. A Member suggested that the Committee meeting be held at 7.00 pm as a result but was informed that one of the purposes of the Committee was to interview fund managers who would wish to leave promptly.

RESOLVED: That

- (1) the report be noted;
- (2) Members of the Committee and Reserves be consulted on their preferences for appointment as Lead Members for report back to the next meeting.

11. Exclusion of the Press and Public

RESOLVED: That in accordance with Part I of Schedule 12A to the Local Government Act 1972, the press and public be excluded from the meeting for the following items for the reasons set out below:

<u>Item</u>	<u>Title</u>	<u>Reason</u>
15.	Upgrade of Pensions Administration System	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)).
16.	Severance Payments of £100,000 or Greater	Information under paragraph 1 (contains information relating to any individual).

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| 17. | Information Report – Investment Manager Monitoring | Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)). |
| 18. | Information Report – Performance of Fund Managers for Quarter Ended 31 March 2013 | Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)). |

12. Upgrade of Pensions Administration System

The Committee considered a confidential report of the Corporate Director of Resources on the process undertaken, options considered, and financial considerations of the replacement of the AXISe pensions software which would cease to be supported by the company from January 2015. It was, therefore, necessary to introduce a replacement before the end of 2014.

RESOLVED: That the provision of a managed service covering support, maintenance and use of the upgraded pensions administration IT system, Altair, to replace AXISe be approved.

13. Severance payments of £100,000 or greater

The Committee received a confidential report of the Corporate Director of Environment and Enterprise which sought the Committee's approval to two severance packages set out in the submitted Business Cases.

In response to questions, it was noted that the recommended severance packages were in accordance with statutory provisions or Council policies and that there was no discretionary element.

RESOLVED: That the severance packages set out in the Business Cases be approved.

14. Information Report - Investment Manager Monitoring

The Committee received a confidential report of the Director of Finance and Assurance which presented Aon Hewitt's quarterly report on Harrow's Fund Managers, detailing strengths and weaknesses and overall ratings. It was noted that there had been one change of rating in the quarter.

It was agreed that further information on benchmarking would be useful. The Aon Hewitt representative undertook to include information on how to understand benchmarking in an appendix.

RESOLVED: That the report be noted.

15. Information Report - Performance of Fund Managers for Quarter Ended 31 March 2013

The Committee received a confidential report of the Director of Finance and Assurance which set out the performance of the investment managers and of the overall fund for the quarter, year and three years ending 31 March 2014.

It was noted that the Governance, Audit, Risk Management and Standards Committee had looked at the overall performance of the Fund and had requested a more extensive commentary.

RESOLVED: That the report be noted.

(Note: The meeting, having commenced at 6.35 pm, closed at 9.04 pm).

(Signed) COUNCILLOR KEITH FERRY
Chairman