

PENSION FUND INVESTMENTS PANEL MINUTES

25 JUNE 2012

Chairman: * Councillor Mano Dharmarajah

Councillors: * Tony Ferrari * Richard Romain
* Thaya Idaikkadar

**Co-optee
(Non-voting):** * Howard Bluston

[Note: Other Attendance: (1) attended in an observer role, as the representative of Harrow UNISON;

(2) Mr George Henshilwood and Clare A Gardner of Hymans Robertson attended in an advisory role, as the Council's Actuary/Adviser.]

* Denotes Member present

153. Attendance by Reserve Members

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

154. Appointment of Vice-Chairman

RESOLVED: To note that no Vice-Chairman be appointed at this time.

155. Declarations of Interest

RESOLVED: To note that Howard Bluston declared a personal interest on the above items in that he had attended meetings at the Aon Hewitt offices in St. Albans. He also attended a lunch hosted by Fidelity for Independent

Advisers. He would remain in the room whilst the matters were considered and voted upon.

156. Minutes

RESOLVED: That the minutes of the meeting held on 6 March 2012 be taken as read and signed as a correct record.

157. Public Questions, Petitions and Deputations

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

RECOMMENDED ITEM

158. Academies - Employer Contribution Rates

The Corporate Director Resources reminding the Panel that in August 2011 seven of Harrow's high schools converted to academy status under the Academies Act 2010 and as a result became separate employers (Scheduled Bodies) of the London Borough of Harrow Pension Fund in accordance with LGPS Regulations

She then stated that the next 12 months could see the introduction of at least four Harrow schools converting to academy status and a newly formed free school in the borough. As the trend of schools converting to academy status was likely to increase it was important for Harrow to establish a common approach in setting Local Government Pension Scheme (LGPS) employer contribution rates for each academy or free school.

The Corporate Director reminded the Panel that it had given significant consideration to the issue previously and subsequent decision were made by Licensing & General Purposes committee which focused on three main elements:

- the implications of including any newly formed academy within Harrow Council's pension fund pool,
- the basis of calculating the share of deficit to be transferred to each academy, and
- the deficit recovery period to be used to recover the share of deficit allocated to each academy.

This had led to a final determination at the L&GPC meeting on the 17 May 2011 as detailed below:

1. Schools that apply for academy status will not be pooled with Harrow Council.

2. A separate employer contribution rate for each academy be established.
3. No stabilisation of contributions to be applied.
4. A deficit recovery period of 20 years to be used to recover the share of deficit allocated to each academy.
5. The 20 year recovery period to only be applicable for as long as the academy or DfE did not give notice of exiting its status.
6. On receiving 7 years notice of exiting academy status, the outstanding deficit be spread over the remainder of the notice period and the contribution rate be recalculated with effect from the start of the following financial year.
7. The Committee to reserve its position regarding the actuarial basis to be used for the recalculation.
8. The share of the deficit to be transferred to the schools be calculated based on the liabilities of current LGPS staff who transfer to the academy and the estimated liability for deferred and pensioner members formally employed by the former maintained school.
9. The cost of calculating academy specific contribution rates to be charged to each school (academy).

The Corporate Director suggested that this agreed approach be applied to all Harrow Schools converting to academy status and newly formed free schools, enabling a consistent approach which provided a reasonable balance between protecting the Fund and ensuring the contribution rate payable by each academy was affordable.

Resolved to RECOMMEND: (to Licensing & General Purposes Committee)

That the calculation of employer contribution rates for all Harrow Schools converting to academy status and newly formed free schools follows the approach applied by the Council to the seven high schools that converted to academy status on 1 August 2011.

RESOLVED ITEMS

159. Terms of Reference

The Panel considered its terms of reference and sought clarification on several points. It was advised that the Corporate Director of Resources intended to consider the current operating arrangements of the Panel in conjunction with new legislative requirements and that this might be the subject of a proposal to the Constitution Review Working Group in the future.

RESOLVED: That the Terms of Reference be noted.

160. Review of the Pension Fund's Investment Strategy

The Panel received a report of the Corporate Director Finance and the Adviser to the Panel, Aon Hewitt, which outlined the options available to the Panel in updating the investment strategy of the pension fund.

The Adviser to the Panel and an officer reported:

- upon the current and proposed asset allocations;
- potential costs around identifying different fund managers and amending the strategy in place;
- the authority was currently tied to generating returns mainly from equities, whereas a change to a diversified strategy would be more adaptable to changing timelines – this would result in less impact from the volatility of the current market place;
- the typical cycle for reviewing an investment strategy was every 3 years. The Panel had previously agreed to revisit the strategy and had sought guidance on maximising the return on investments;
- a changed strategy at this stage would still result in only a marginal increase in expected returns but, that any changes would be expected to be based on a longer term view;
- changes in the investment strategy which did not materially affect outcome expectations would have no impact and greater actuarial prudence was needed;
- although there was triennial valuation in 2013 that would set contribution rates the Council adviser felt that the decision should be taken in the current year to allow the Council to move forward.

A Member spoke on the Strategy report and proposals stating that he did not support further exposure as proposed. He commented on the current market volatility and expressed his view that he felt this situation would continue for some time and that he felt the appropriate course of action was to reduce equity holdings and in the short term convert to a more cash rich Fund to lend the greatest protection to the Council's investments. He agreed this was not a palatable choice but, felt this was the right approach in the current market.

The Panel discussed the strategy and expressed individual thoughts as to the potential opportunities available to the authority noting that on the whole it was not pro-passive in approach. A Member suggested that the emphasis should be on achieving what little changes could be made to ensure the Council retained as much value of the Fund as possible.

The Corporate Director reminded the Panel that the Pension Fund was a long term investment area and that she considered some funds could be more

“nimble” and that the Council should consider where this could be implemented.

Members discussed the various options around diversified growth, equities selling, cash investments and felt that further consideration was needed to establish the direction of travel of the financial markets.

RESOLVED: That the report be deferred to the next meeting.

161. Information Report - presentation by WM

The Panel received a presentation from a representative of WM which set out the performance of the pension fund over 1, 3 and 5 years. Members were advised that:

- in the year ended 31 March 2012, the fund had provided a return of 2.4% which was 0.9% below the benchmark of 3.3%. This compared with the local authority average return of 2.6% and ranked in the 64th percentile;
- the return over the full 3 years period remained at 16.4% ahead of the average return percentage estimates
- the fall in the return levels was directly attributable to the volatility of the current markets and the effects of the national economic difficulties.

In response to questions, WM representatives advised that current investment trends demonstrated activity mainly in alternatives and diversified growth. The active/passive market remained stable and there was a move towards cash-holding whilst the market awaited a clearer picture for investment.

RESOLVED: That the presentation be noted.

162. Information Report - LGPS 2014

The Corporate Director Resources introduced a report outlining the proposals for reform of the LGPS and improvement of governance standards, noting that these were required to be implemented with effect from 1 April 2014.

The main elements of the proposed LGPS 2014 scheme would cover the following:

- a Career Average Revalued Earnings (CARE) scheme using CPI as the revaluation factor (the current scheme is a final salary scheme);
- the accrual rate would be 1/49th (the current scheme is 1/60th);
- there will be no normal scheme pension age; instead each member's Normal Pension Age (NPA) will be their State Pension Age (the current scheme has an NPA of 65);

- average member contributions to the scheme would be 6.5% of actual pay. The lowest paid would pay the same or less and the higher paid would pay higher contributions on a more progressive scale after tax relief;
- Members could elect to pay half contributions for half the pension, while still retaining the full value of other benefits;
- there will be a protection on benefits for service prior to 1 April 2014, including the 'Rule of 85' protection. Protected past service continues to be based on final salary and current NPA;
- where scheme members are outsourced they will be able to stay in the scheme on first and subsequent transfers.

As part of the discussions between employers, unions and government on reform of the Local Government Pension Fund officers advised that a working party was established to make recommendations on improving the governance structure of LGPS. The working group recommendations included:

- all LGPS funds to have a Pensions Board / Committee that has ultimate responsibility and accountability for all fund matters e.g. investment and administration;
- standardised terms of reference and delegated powers for Pension Boards;
- Pension Board should have representatives of participating employers and scheme members (including deferred and pensioners) all with equal voting rights;
- ring fencing of pension funds and their management from other Council business to avoid conflicts of interest;
- a code of practice defining the roles, duties, obligations and responsibilities of Pension Board members;
- greater enforcement of the requirement to meet certain standards of knowledge and skills;
- the formation of a National Policy and Standards Board, with responsibilities including:
 - determining LGPS standards covering administration, communication, accounting, investments, funding and governance;
 - collating information from funds to improve transparency;
 - monitoring LGPS fund performance including compliance with standards;

- setting benchmarks and performance standards e.g. maximum cost per member;
- taking action / placing penalties where an LGPS fund is not meeting these standards.

Officers anticipated that there would be further consultation on the proposals with scope for some to become guidance rather than mandatory.

In response to questions officers confirmed that the process would be complex and potentially additional resource would be required to deliver the outcomes proposed. However, the general view was the onus remained on the employer to provide and enable the Scheme.

RESOLVED: That the report be noted.

163. Review of Blackrock Bond Opportunities

RESOLVED: That the report be deferred for consideration at the next meeting of the Panel.

164. 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 reason that they all contain information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information)).

165. Fidelity Fee Proposal

An officer introduced a report which detailed an alternative fee proposal submitted by Fidelity, following the rejection of its previous proposal.

In considering the other items before the Panel, the Chairman introduced a motion calling for Fidelity to be terminated. It was agreed that any termination decision be deferred, but that on the basis that the fee reduction did not prevent Harrow from terminating at a later date, it would be in the Council's best interest to accept the fee reduction proposal.

RESOLVED: That

- (1) a report on the decision to terminate be brought to a future meeting;
- (2) the fee reduction proposal be accepted, providing that it does not prevent the Council from terminating at a later date.

166. Information Report - Investment Manager Reporting

The Panel received Aon Hewitt's quarterly report on Harrow's fund managers, detailing strengths and weaknesses and overall ratings. The Panel requested that a one day event be arranged for attendance and presentations by all Fund Managers.

RESOLVED: That the report be noted and resubmitted to the next meeting.

167. Information Report - Performance of fund managers for quarter ended 31st March 2012

The Panel received a report which set out the performance of the investment managers and of the overall fund for the quarter, year and three years ending 31 March 2012.

RESOLVED: That the report be noted.

168. Information Report - Update report and action points from previous meeting

The Panel received a report which provided an update on actions taken since the last meeting.

RESOLVED: That the report be noted.

(Note: The meeting, having commenced at 6.42 pm, closed at 10.00 pm).

(Signed) COUNCILLOR MANO DHARMARAJAH
Chairman