

# **PENSION FUND INVESTMENTS PANEL MINUTES**

## **5 APRIL 2011**

**Chairman:** \* Councillor Mano Dharmarajah

**Councillors:** \* Tony Ferrari \* Richard Romain  
\* Thaya Idaikkadar

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

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

(2) Stephen Brooks attended in an observer role, as a representative of GMB;

(3) Mr Bryan Chalmers and Lorna Turner of Hymans Robertson attended in an advisory role, as the Council's Actuary/Adviser.]

\* Denotes Member present

### **68. Attendance by Reserve Members**

**RESOLVED:** To note that there were no Reserve Members in attendance at this meeting.

### **69. Declarations of Interest**

**RESOLVED:** To note that the following interest was declared:

## Agenda Item 9 – Academies – Employer Contribution Rates

Councillor Tony Ferrari declared a personal interest in that he was a PGC student teacher at Rooks Heath College for Business and Enterprise. He would remain in the room whilst the matter was considered and voted upon.

### **70. Minutes**

**RESOLVED:** That the minutes of the meeting held on 17 January 2011 be taken as read and signed as a correct record.

### **71. Public Questions, Petitions and Deputations**

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

## **RECOMMENDED ITEMS**

### **72. Academies - Employer Contribution Rates**

An officer introduced the report and explained that there were currently 7 schools within the borough who were investigating becoming an academy. Schools that wished to become academies would be deemed as a separate scheme employer under the Local Government Pension Scheme (LGPS) Regulations. However a formal request had been made for all academies to participate in the current employer pool, which would result in a shared employer contribution rate and pension fund deficit.

The officer reported that the recommendations in the report focused on separating employer contribution rates for each academy. Stabilisation of the contributions was not considered to be necessary. Additionally the deficit recovery period of 20 years proposed, would allow academies to pay a reasonable contribution rate. A proposal was also included for the costs of calculating academy specific contributions to be charged to each academy.

The officer explained that having conducted some research, it appeared that the majority of local authorities were establishing separate Employer Contribution Rates. It was considered that the recommendations before the panel were reasonable and not detrimental to academies.

As part of the discussion on the item, representatives from Hymans Robertson provided information to the Panel on general issues relating to Academies and the LGPS. The representatives reported that

- the Department for Education (DfE) had produced a briefing note which provided useful guidance on academies and the LGPS and recommended that academies had their own employer contribution rate;
- the DfE had recommended individual rates for academies and for academies to have responsibility for their share of the pension fund

deficit. The calculation of this deficit would have to be determined by the Council;

- the DfE had indicated that the pension deficit should be allocated at the outset but no guidance had been given to the calculation of the allocated deficit. Two possible options to calculate the deficit had been provided by Hymans Robertson. This included a deficit based on actives only and a deficit including deferreds and pensioners;
- the deficit including an allocation for deferreds and pensioners was considered to be a more extreme model and took into account deficits incurred as a result of staff on pensions and those who had left employment. This model could also impose difficult administrative problems in identifying relevant deficits relating to such staff. For these reasons the deficit based on actives only was considered to be a better, fairer and more reasonable model to calculate pension deficit;
- using the example of a specific school in the borough, if the first model was used, this would result in a funding deficit of £400,000 compared with £1.01million if the second model was used. Therefore for the first model, the contribution rate would be 18.8% over 20 years compared with 21.8% for the second model.

During the discussion on this item, Members raised a number of issues which were responded to by officers as follows:

- it was for the Pension Fund Administering Authority to determine whether academies could participate in the current employer pool;
- there was a statutory right for non-teaching staff within the academy to remain in the LGPS;
- officers had approached the subject and formulated recommendations by looking objectively to protect the pension fund;
- Academies were aware of the proposed recommendations submitted to the Panel and had communicated that they in fact wished to pool its membership profile with the Council to result in a shared employer contribution rate and pension fund deficit;
- historically staff from some colleges within the borough had been pooled into the Council's pension fund. This may have occurred due to administrative arrangements and the relative size of the fund. However all other groups of staff, other than Council staff, who had been incorporated into the LGPS, had not been pooled. Reflecting on and analysing the current situation, it was recommended that no pooling be applied in this current situation;
- it was possible for a separate contribution rate to be paid by academies and for the funds to be pooled, if desired;

- the Panel had to ensure that potential risk to the pension fund was considered and balanced. If an academy encountered difficulties in the future in terms of funding, there could possibly be implications for the pension fund for which the Council would have to deal with;
- there would be cost issues if a fidelity bond with the academies was pursued. It was considered not to be appropriate given the funding streams for academies were not yet confirmed;
- each Academy would pay their own employer contribution rate. This would be funded by the Academy's themselves;
- it was anticipated that academy specific contribution rates would be within the range of 18% to 20% under the proposed approach.

During the discussion on this item, Members of the Panel made a number of comments including:

- the Members of the Licensing and General Purposes Committee had a different remit to members of the Panel, who were essentially trustees of the fund. Having regard to this, it would be wise to have a representative of Hymans Robertson at the meeting of the Committee on 11 April 2011 to answer any queries;
- Academies had lobbied Members to not agree the recommendations presented to them;
- Academies were working together to minimise costs in a number of areas. For example they had employed a single legal framework lawyer to deal with the transition to becoming an academy.

In concluding the item a Member of the Panel raised concerns with using a deficit recovery period of 20 years to calculate the deficit contribution. Academies had been guaranteed funding for 7 years and therefore this should be the period to calculate the deficit contribution. The representatives from Hymans Robertson commented that this was a decision for the Panel to make, however it was not expected that academies would close after 7 years due to a number of political and social factors. Other Members of the Panel commented that the Panel had a responsibility to take sensible and prudent balance of risks when making decisions relating to the pension fund. The right decisions had to be made to ensure it was fully funded. Therefore 20 years was reasonable.

A Member of the Panel also queried whether stabilisation should be applied for an initial 3 year period. This would provide a level of stability for the academies and in any event, officers had reported that this occurred in any event. Other Members of the Panel disagreed with the view stating that further information was required from the government on funding streams before stabilisation could be applied. Additionally if the deficit recovery period was set at 7 years, this could potentially mean the deficit would be higher for the remaining 4 years.

A Member of the Panel wished it to be recorded that there was a discussion between Members of the Panel on the issue of stabilisation and deficit recovery period and that in his view stabilisation should be applied to employer contributions for three years and a deficit recovery period of 7 years be used to calculate the deficit contribution.

**Resolved to RECOMMEND:** (to the Licensing and General Purposes Committee) That

- (1) schools that apply for academy status will not be able to pool 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 calculate the deficit contribution;
- (5) the Harrow Council ongoing funding level as at the date of transfer to be applied to the liabilities of transferred actives to determine the initial assets to be allocated to each academy;
- (6) the actuarial liabilities and deficit contributions for pensioners and deferred members remain with Harrow Council;
- (7) the cost of calculating academy specific contribution rates be charged to each academy.

## **RESOLVED ITEMS**

### **73. Review of the Statement of Investment Principles**

Officers reported to the Panel that this item had been formally withdrawn from the agenda. The item would be presented to a future meeting of the Panel.

**RESOLVED:** That the withdrawal of this item be noted.

### **74. Review of the Funding Strategy Statement**

Officers reported to the Panel that this item had been formally withdrawn from the agenda. The item would be presented to a future meeting of the Panel.

**RESOLVED:** That the withdrawal of this item be noted.

### **75. Presentation of the Valuation Report by the Actuary**

Members agreed that consideration of this item would be deferred to a future meeting of the Panel.

**RESOLVED:** That the item be deferred, to be considered at a future meeting of the Panel.

**76. INFORMATION REPORT - Update Report and Action Points from Previous Meetings**

Members agreed that consideration of this item would be deferred to a future meeting of the Panel.

**RESOLVED:** That the item be deferred, to be considered at a future meeting of the Panel.

**77. Exclusion of the Press and Public**

**RESOLVED:** That the press and public be excluded from the meeting for the following item for the reasons set out below:

<u>Item</u>	<u>Title</u>	<u>Reason</u>
14. )	Tender for Actuarial and	Information under paragraph 3 (contains information relating to the financial or business affairs of any particular person (including the authority holding that information).
)	Investment Consulting Services.	
)		
15. )	Information Report – Performance	of any particular person (including the authority holding that information).
)	of Fund Manager – Quarter Ended	
)	31 December 2010.	
)		
16. )	Appendix to Agenda Item 13 –	
)	Information Report – Update	
)	Report and Action Points from	
)	Previous Meetings	

**78. Tender for Actuarial and Investment Consulting Services**

The Panel received a presentation from representatives of Aon Hewitt, in which they detailed their Investment Advisory Services and how this would be of benefit to the Council. During the presentation the representatives reported:

- that the team from Aon Hewitt that would support the Council, would contain the necessary expertise and experience;
- Aon Hewitt were focused on achieving success for investments and would provide the appropriate and necessary support;
- that they were clear about their current views on main asset classes, and this was contained within the report.

During the discussion on this item, Members of the Panel raised a number of issues which the representatives responded to as follows:

- there were a range of measures which Aon Hewitt implemented to standardise their approach;
- it was happy to provide assistance to the Panel and through discussions with officers;
- the organisation was happy to implement an ethical investment policy.

Members of the Panel expressed that they wished to defer the decision on whether to appoint Aon Hewitt as an Investment Advisor to a future meeting of the Panel. The reason for this was that further discussion was required between the Panel.

**RESOLVED:** That the item be deferred, to be considered at a future meeting of the Panel.

**79. INFORMATION REPORT - Performance of Fund Managers - Quarter Ended 31 December 2010**

Members agreed that consideration of this item would be deferred to a future meeting of the Panel.

**RESOLVED:** That the item be deferred, to be considered at a future meeting of the Panel.

**80. Appendix 1 to Agenda Item 13 - INFORMATION REPORT - Update Report and Action Points from Previous Meetings**

Members agreed that consideration of this item would be deferred to a future meeting of the Panel.

**RESOLVED:** That the item be deferred, to be considered at a future meeting of the Panel.

**81. Termination of Meeting**

**RESOLVED:** At 9.58 pm to continue until 10.30 pm, in accordance with the provisions of Committee Procedure Rule 14 (Part 4B of the Constitution).

(Note: The meeting, having commenced at 6.30 pm, closed at 10.05 pm).

(Signed) COUNCILLOR MANO DHARMARAJAH  
Chairman