Haringey Council

NOTICE OF MEETING

Pensions Committee

MONDAY, 1ST NOVEMBER, 2010 at 19:00 HRS - CIVIC CENTRE, HIGH ROAD, WOOD GREEN, N22 8LE.

MEMBERS: Councillors Watson (Chair), Adje (Vice-Chair), Gibson, Stennett, Beacham, Jenks and Wilson

IN ATTENDANCE: Howard Jones, Roger Melling, Michael Jones and Keith Brown

AGENDA

1. APOLOGIES FOR ABSENCE

2. URGENT BUSINESS

The Chair will consider the admission of any late items of urgent business. Late items will be considered under the agenda item where they appear. New items of unrestricted urgent business will be considered under agenda item 10, and any new items of exempt urgent business will be considered under agenda item 14.

3. DECLARATIONS OF INTEREST

A member with a personal interest in a matter who attends a meeting of the authority at which the matter is considered must disclose to that meeting the existence and nature of that interest at the commencement of that consideration, or when the interest becomes apparent.

A member with a personal interest in a matter also has a prejudicial interest in that matter if the interest is one which a member of the public with knowledge of the relevant facts would reasonably regard as so significant that it is likely to prejudice the member’s judgement of the public interest and if this interest affects their financial position or the financial position of a person or body as described in paragraph 8 of the Code of Conduct and/or if it relates to the determining of any approval, consent, license, permission or registration in relation to them or any person or body described in paragraph 8 of the Code of Conduct.

4. MINUTES (PAGES 1 - 6)

To confirm the unrestricted minutes of the meeting of the Pensions Committee held on 16 September 2010.

5. ATTENDANCE BY FUND MANAGER

Attendance by Fund Manager for presentations and questions from Trustees, the Advisor to Trustees and the Section 151 Officer.

7:05 - ING

6. PENSION FUND TREASURY MANAGEMENT STRATEGY STATEMENT (PAGES 7 - 10)

Report of the Director of Corporate Resources to consider a proposed revision to the treasury management strategy statement for the investment of pension fund cash.

7. BRIEFING ON THE INTERIM REPORT OF THE INDEPENDENT PUBLIC SERVICE PENSIONS COMMISSION (PAGES 11 - 14)

Report of the Director of Corporate Resources to inform the Committee of key issues arising from the interim report of the Independent Public Service Pensions Commission.

8. ROLE OF REPRESENTATIVE MEMBERS OF THE PENSIONS COMMITTEE (PAGES 15 - 18)

Report of the Director of Corporate Resources to consider a proposal to change the role of the representative members of the Pensions Committee.

9. INVESTMENT STRATEGY REVIEW (PAGES 19 - 26)

Report of the Director of Corporate Resources to outline the proposed next steps for the investment strategy review including a summary of the possible methods for determining asset allocation options.

10. ANY NEW ITEMS OF URGENT BUSINESS

11. EXCLUSION OF PRESS AND PUBLIC

The following item is likely to be the subject of a motion to exclude the press and public from the meeting as it contains exempt information as defined in Section 100a of the Local Government Act 1972; namely information relating to the business or financial affairs of any particular person (including the Authority holding that information).

12. EXEMPT MINUTES (PAGES 27 - 28)

To confirm the exempt minutes of the meeting of the Pensions Committee held on 16 September 2010.

13. UPDATE ON EMPLOYER ISSUE

Verbal report.

14. ANY OTHER EXEMPT ITEMS OF URGENT BUSINESS

Ken Pryor
Deputy Head of Local Democracy and Member Services
5th Floor
River Park House
225 High Road
Wood Green
London N22 8HQ

Helen Jones
Principal Committee Coordinator
Tel: 020 8489 2615
Fax: 020 8489 2660
Email: Helen.jones@haringey.gov.uk

Friday, 22 October 2010

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MINUTES OF THE PENSIONS COMMITTEE
THURSDAY, 16 SEPTEMBER 2010

Councillors	Watson (Chair), Adje (Vice-Chair), Gibson, Stennett, Beacham, Wilson and Winskill
Apologies	Roger Melling (Employee Representative)
Also Present:	Howard Jones (Investment Advisor) and Michael Jones (Pensioner Representative)

MINUTE NO.	SUBJECT/DECISION	ACTION BY
PRPP24.	**APOLOGIES FOR ABSENCE** Apologies for absence were received from Cllr Jenks, for whom Cllr Winskill was acting as substitute. Apologies for absence were also received from Roger Melling. The Chair welcomed Michael Jones to the meeting, who had been appointed as the Pensioner Representative on the Committee at the AGM. The Chair also reported that, since the last meeting, a new Scheduled and Admitted Bodies Representative, Keith Brown, had been appointed. The Chair advised that both new members would bring a wealth of experience to the Committee. The Committee expressed their thanks formally to David Corran, the outgoing Pensioner Representative, and Earl Ramharacksingh, the outgoing Scheduled and Admitted Bodies Representative, for their contributions to the work of the Committee.	
PRPP25.	**URGENT BUSINESS** There were no items of urgent business.	
PRPP26.	**DECLARATIONS OF INTEREST** Cllr Watson declared a personal interest as a deferred member of the Haringey Pension Scheme. Cllr Winskill and Michael Jones both declared a personal interest as current members of the Haringey Pension Scheme. Cllr Wilson declared a personal interest as an employee of the National Association of Pension Funds. Cllr Adje declared a personal interest as a member of the Haringey Pension Scheme and as branch secretary for the GMB union.	

MINUTES OF THE PENSIONS COMMITTEE
THURSDAY, 16 SEPTEMBER 2010

PRPP27.	**MINUTES** **RESOLVED** That, subject to an amendment to the declaration of interests such that Cllr Wilson's read "…declared a personal interest as an employee of the National Association of Pension Funds." the unrestricted minutes of the meeting of the Pensions Committee held on 21 June 2010 be approved, to be signed by the Chair once amended.	
PRPP28.	**ANNUAL GOVERNANCE REPORT 2009/10 - GRANT THORNTON** Subarna Banerjee and Matthew Cass from Grant Thornton attended the meeting to present this report on the statutory Annual Governance Report on the annual audit of the Pension Fund statutory accounts. It was reported that the audit was now complete and Grant Thornton stated that in their audit conclusion, they were satisfied that the pensions department was operating efficiently and with all appropriate controls in place. Mr Banerjee and Mr Cass outlined the findings of the audit, as set out in the report and answered questions from the Committee. The Committee thanked Grant Thornton for their report and expressed thanks to the Finance team for their work in ensuring that no significant issues had been identified in the audit process. **RESOLVED** i) That the Pension Fund Annual Report be approved. ii) That the Pensions Fund Accounts be recommended to the General Purposes Committee for approval.	
PRPP29.	**ATTENDANCE BY FUND MANAGERS** The Committee received a presentation from the Fund Managers Capital and Fidelity, as follows: **CAPITAL** Performance for the equities mandate was 1.42% below the benchmark and 3.42% below the target in annualised terms in the 39-month period to the end of June 2010. Performance for the fixed income mandate was 0.66% below the benchmark and 1.65% below the target in annualised terms in the 39-month period to the end of June 2010. Capital explained the reasons for current performance and answered questions from Trustees. The Committee requested that Capital deliver a brief presentation on the specific actions they were taking and the reasons for their confidence that performance would improve when they next attended a meeting of the Committee.	

	FIDELITY Performance for the equities mandate was 0.1% above the benchmark and 1.6% below the target in annualised terms in the 39-month period to the end of June 2010. Performance for the bond mandate was 1.4% above the benchmark and 0.8% above the target in annualised terms in the 39-month period to the end of June 2010. Fidelity explained the reasons for current performance and answered questions from Trustees. **RESOLVED** That the presentations and answers to questions given by the Fund Managers be noted.	
PRPP30.	**FUND PERFORMANCE UPDATE** Nicola Webb, Head of Pensions and Treasury, presented the Fund Performance update and advised that the previous quarter had been negative overall for the Fund, which had decreased by 7%, 0.03% below benchmark and 0.44% below the target. The report also set out information on engagement activity in relation to the Fund. In response to questions from the Committee regarding the amount of the Fund held in cash, it was agreed that this would be considered as part of the Investment Strategy review, and Hewitts could advise on this issue at the Strategy Review session on 4th October. **RESOLVED** i) That the Fund performance position as at end of June 2010 be noted. ii) That the responsible investments information provided be noted. iii) That the pension fund budget monitoring position be noted.	
PRPP31.	**VERBAL ITEM ON INVESTMENT STRATEGY** The Committee was reminded to attend the training and discussion session on the Investment Strategy, scheduled to start at 4.30pm on Monday, 4 October. A draft agenda was circulated to all Members of the Committee and any comments or suggested changes to the agenda were to be forwarded to Nicola Webb or the Chair. **NOTED**	

PRPP32.	**LATE PAYMENT OF CONTRIBUTIONS** Nicola Webb, Head of Pensions and Treasury, presented the report on the extent of late payment of contributions to the Fund, and options for improvement. It was reported that the situation had improved in 2010/11 and that there were only two bodies who had been late with payments; the Pensions Team were following this issue up with both of these bodies. Following discussion and questions from the Committee, it was agreed that Kevin Bartle, Lead Finance Officer, would circulate a copy of the letter being sent to those schools who had paid late on more than one occasion during the previous year. **RESOLVED** i) That a clear statement of employers' responsibilities in respect of contributions be included in the Pensions Administration Strategy Statement (PASS) which will be prepared for the Committee meeting on 1st November 2010. ii) That the timing of the payment of contributions be reported to the Pensions Committee on a quarterly basis.	
PRPP33.	**PENSION FUND TREASURY MANAGEMENT STRATEGY STATEMENT** The Committee considered a report on the proposed treasury management strategy statement for the investment of pension fund cash. It was reported that it was considered best practice and would be compliant with the CIPFA code of practice to have a separate strategy statement, with the introduction of a separate bank account for the Pension Fund. **RESOLVED** That the proposed Treasury Management Strategy Statement for pension fund cash be approved.	
PRPP34.	**NEW ITEMS OF UNRESTRICTED URGENT BUSINESS** There were no new items of unrestricted urgent business.	
PRPP35.	**EXCLUSION OF PRESS AND PUBLIC** **RESOLVED** That the press and public be excluded from the meeting for consideration of the following items.	
PRPP36.	**FOLLOW UP REPORT ON PENSION FUND EMPLOYER ISSUE** Ian Benson, Pensions Manager, presented the report on a Pension Fund	

	Employer Issue. The Committee considered the report and asked questions, and it was: **RESOLVED** That the recommendations of the report be agreed.	
PRPP37.	**EXEMPT MINUTES** **RESOLVED** That the exempt minutes of the meeting of the Pensions Committee held on 21 June 2010 be approved and signed by the Chair.	
PRPP38.	**NEW ITEMS OF EXEMPT URGENT BUSINESS** There were no new items of exempt urgent business. The meeting closed at 21:25hrs.	

COUNCILLOR RICHARD WATSON
Chair

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Agenda item:

Pensions Committee **On 1 November 2010**

Report Title. **Pension Fund Treasury Management Strategy Statement**

Report of **Director of Corporate Resources**

Signed : for DoCR

Contact Officer : **Nicola Webb – Corporate Finance**
Telephone 020 8489 3726

Wards(s) affected: **All**	Report for: Non key decision

1. Purpose of the report

1.1 To consider a proposed revision to the treasury management strategy statement for the investment of pension fund cash.

2. Introduction by Cabinet Member

2.1 Not applicable.

3. State link(s) with Council Plan Priorities and actions and /or other Strategies:

3.1 Not applicable.

4. Recommendations

4.1 That the extension to the use of Money Market Funds as part of the Treasury Management Strategy Statement for pension fund cash, as set out in 15.3 be approved.

5. Reason for recommendations

5.1. To ensure the Pension Fund Treasury Management Strategy Statement continues to mirror the Council's strategy.

6. Other options considered

6.1. Not applicable.

7. Summary

7.1 Pensions Committee approved a treasury management strategy for the investment of pension fund cash at its meeting on 16th September 2010. The Council agreed to change the Council Treasury Management Strategy Statement to extend the use of money market funds on 18th October 2010 and it is proposed this change is reflected in the Pension Fund strategy.

8. Head of Legal Services Comments

8.1 The Head of Legal Services has been consulted on the content of this report and comments that its content and recommendation are within the policy agreed by Council and consistent with the provisions of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. In considering the report Members must take into account any expert financial advice given at the meeting of the Committee.

9. Equalities & Community Cohesion Comments

9.1 There are no equalities issues arising from this report.

10. Consultation

10.1 Not applicable.

11. Service Financial Comments

11.1 The extension of the use of money market funds will provide greater flexibility to the Pension Fund in the investment of cash enabling funds required to be kept on call for drawdowns to earn a reasonable rate of return.

12. Use of appendices /Tables and photographs

12.1 None

13. Local Government (Access to Information) Act 1985

- Treasury Management report to Council 18th October 2010

14. Background

14.1 The Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulations 2009 set out the parameters within which Local Government Pension Funds should invest their funds. These regulations require that Pension Funds operate a separate bank account for pensions from 1st April 2011.

14.2 The bank account is now up and running and as part of ensuring all arrangements are transparent, Pensions Committee approved the Pension Fund Treasury Strategy Statement on 16th September 2010.

14.3 On 18th October 2010 full Council approved a revision to the Council's Treasury Management Strategy Statement to provide greater capacity and improved yield, whilst ensuring the security of the Council's funds is not compromised.

15. Money Market Funds

15.1 The change to the Council's Treasury Management Strategy Statement was to extend the use of money market funds. Money Market Funds are AAA rated funds which provide an investor with a way to buy units of highly diversified funds. The Funds must maintain a high level of liquidity to enable them to provide instant access. The money market funds used by the Council and the Pension Fund do not vary in value, but have a constant net asset value.

15.2 The current Pension Fund treasury management strategy statement enables the Pension Fund and the Council to invest in money market funds with an individual limit on each of £15m and a group limit of £45m. In addition the Pension Fund, unlike the Council, has a £30m limit with a government stock only money market fund as a default option in the absence of the availability of the government guaranteed Debt Management Office to Pension Funds.

15.3 It is proposed to implement the change already agreed by Council for the Council's funds for the Pension Fund cash. This is to increase the individual limit for each money market fund to £20m, which is consistent with the limits of the banks in the strategy and increase the group limit to £100m. In putting this proposal forward the following controls will be adhered to:

- No more than 15% of the value of the Council and Pension Fund cash held will be placed in any one money market fund.

- Only money market funds recommended by the Council's treasury management advisers will be used.
- Additional money market funds are only used following a selection procedure involving officers and the Council's treasury management advisers.

Agenda Item 7

Agenda item:

Pensions Committee **On 1 November 2010**

Report Title: **Briefing on the interim report of the Independent Public Service Pensions Commission**

Report of **Director of Corporate Resources**

Signed : for DoCR

Contact Officer : **Nicola Webb – Corporate Finance**
Telephone 020 8489 3726

Wards(s) affected: **All**	Report for: Non key decision

1. Purpose of the report

1.1 To inform the Committee of key issues arising from the interim report of the Independent Public Service Pensions Commission.

2. Introduction by Cabinet Member

2.1 Not applicable.

3. State link(s) with Council Plan Priorities and actions and /or other Strategies:

3.1 Not applicable.

4. Recommendations

4.1 That the report be noted.

5. Reason for recommendations

5.1. For noting only.

6. Other options considered

6.1. Not applicable.

7. Summary

7.1 The interim report of the Independent Public Service Pensions Commission concludes that public service pension schemes are in need of reform to make them affordable in the long term. The report concludes that the Local Government Pension Scheme should remain a funded scheme and the only recommendation for the short term is to increase employee contributions.

7.2 The final report is expected to be published in Spring 2011 in time for the Budget and will address the following key issues:

- Increasing retirement age
- Replacing the final salary structure of the schemes
- The structure and number of Local Government Pension Scheme funds

8. Head of Legal Services Comments

8.1 The Head of Legal Services has been consulted on the content of this report and has no specific comment to make.

9. Equalities & Community Cohesion Comments

9.1 There are no equalities issues arising from this report.

10. Consultation

10.1 Not applicable.

11. Service Financial Comments

11.1 The Council is currently paying 22.9% of salaries in employer contributions to the Local Government Pension Scheme. The reforms being considered by the Commission are likely to reduce the cost of the scheme to the Council. However the reforms will not affect accrued rights and therefore will not reduce the value of the deficit which will still need to be met in the long term.

12. Use of appendices /Tables and photographs

12.1 None

13. Local Government (Access to Information) Act 1985 13.1 HM Treasury: Interim report of the Independent Public Service Pensions Commission, 7th October 2010

14. Background

14.1 The Independent Public Service Pensions Commission was set up and the terms of reference published on 20th June 2010. Lord Hutton was appointed to chair the commission. The remit is "a fundamental structural review of public service pension provision". The review covers all of the major public sector pension schemes including the Local Government Pension Scheme.

14.2 The Commission was tasked with producing a final report in time for the Budget in Spring 2011 and an interim report was published on 7th October 2010.

14.3 This report sets out the key points of the interim report as they relate to the Local Government Pension Scheme. Section 15 covers the conclusions and recommendations reached in the interim report and section 16 sets out the issues identified for further examination in the final report.

15. Conclusions and recommendations from the Interim report

15.1 The report concludes that reform is necessary for public sector pension schemes to address the rising costs, whilst ensuring the schemes are fair in a modern workforce. Section 16 below summarises the issues being considered for reform in the longer term. However the interim report states that it does not consider "a race to the bottom" of pension provision that has been seen in the private sector in recent years is appropriate. Given that only 35% of private sector employees are in employer sponsored pension schemes, it is believed this will lead to greater reliance on the state in the long term. The report is clear that transferring costs to the state benefit system is not a solution to the public services pensions issues.

15.2 The report addresses the key difference in the Local Government Pension Scheme (LGPS) compared to the other large public sector schemes, in that it is a funded scheme. The report makes it clear it does not see there is any long term benefit in removing the assets of the scheme and therefore recommends that the LGPS remains a funded scheme. Equally it does not recommend that the unfunded schemes build up funds due to the initial costs of doing this.

15.3 The only recommendation for cost saving in the short term is for an increase in employee contributions. This is in response to the move away over the last 50-60 years from schemes where employee and employer shared the costs equally to ones where the employees only pay around a third of the cost. The report does not specify how much the increase should be and leaves this for Government to decide. It is expected that this will be announced as part of the Comprehensive Spending Review. However the report recommends the implementation of any increase has regard for the low paid and the risk of increasing numbers of opt-outs, particularly at a time of a pay freeze. The LGPS already has a system of different percentages of employee contributions for different salary levels, so a proposal weighted towards the higher paid paying more could be easily introduced.

16. Areas to cover in the final report

16.1 As stated in 15.1 above the interim report concludes that reform to public service pension schemes is necessary and it sets out the following principles which will guide the work towards the recommendations in the final report:

- Affordable & sustainable
- Adequate & fair
- Support productivity
- Transparent & simple

16.2 The report concludes that the age of retirement needs to be reviewed. The number of years a pensioner can expect to live in retirement is now around twice as long as it was 60 years ago and this has a direct impact on cost. The Commission will consider how to increase retirement ages and one solution is for them to rise in line with the state pension age. In the LGPS the retirement age is already 65, unlike many other public service schemes, and the protected rights of those with long service to retire earlier than this is due to be phased out by 2020.

16.3 The interim report concludes that final salary schemes are not appropriate for the future. The evidence the report presents show that those with rapid career progression receive a larger pension as a proportion of the contributions they make, than those with a more modest progression. Therefore it is concluded this is not fair and the final salary link should be removed. The interim report states that a number of alternative schemes are being investigated in order to reach a recommendation for the final report including Career Average Schemes, Notional Defined Contribution Schemes and Hybrid Schemes. The experience of other countries operating these schemes will be considered.

16.4 The final report will also consider the administration of public service pension schemes to ensure that they are as cost effective as possible. In relation to this the LGPS will be specifically looked at in terms of the number of funds which operate in local areas. There are currently 89 funds in England and Wales and the final report will address whether this structure delivers value for money or whether it should be changed.

Agenda Item 8

Agenda item:

Pensions Committee	On 1 November 2010

Report Title. **Role of Representative members of the Pensions Committee**

Report of **Director of Corporate Resources**

Signed : Kevin Bartle for DoCR

Contact Officer : **Nicola Webb – Corporate Finance**
Telephone 020 8489 3726

Wards(s) affected: **All**	Report for: Non key decision

1. Purpose of the report

1.1 To consider a proposal to change the role of the representative members of the Pensions Committee.

2. Introduction by Cabinet Member

2.1 Not applicable.

3. State link(s) with Council Plan Priorities and actions and /or other Strategies:

3.1 Not applicable.

4. Recommendations

4.1 That Pensions Committee recommend to Council that the representative members of Pensions Committee have full access to all information including exempt information upon signing an undertaking to observe the Members 'Code of Conduct'.

4.2 That Pensions Committee recommend to the stakeholder groups represented on the Committee that representatives are elected for a period equivalent to an elected member.

5. Reason for recommendations

5.1 To ensure that the Pension Fund fully benefits from the representative members being part of the Pensions Committee.

6. Other options considered

6.1. Not applicable.

7. Summary

7.1 Pensions Committee representative members are currently excluded from exempt items of business including receiving the related reports and minutes. The report proposes this is changed to enable them to take part fully in Pensions Committee meetings.

8. Head of Legal Services Comments

8.1 The Head of Legal Services has been consulted on the content of this report. The legal framework enabling the Council to exercise its discretion concerning the provision of voting rights and access to exempt information to non-voting members of the Pensions Committee is set out within the body of the report. There is no legal obligation to give voting rights to non-councillor members. As indicated in the report, should voting rights be given to non-voting members of the Committee, they would be subject to the Members' Code of Conduct following their written agreement to observe the Code.

9. Equalities & Community Cohesion Comments

9.1 There are no equalities issues arising from this report.

10. Consultation

10.1 Not applicable.

11. Service Financial Comments

11.1 There are no financial implications arising from this report.

12. Use of appendices /Tables and photographs None
13. Local Government (Access to Information) Act 1985

14. Background

14.1 The Pensions Committee was originally made up of only elected councillor members, however in recent years representatives of various stakeholder groups have been invited to join the Committee to provide a wider perspective on pensions matters and to ensure all groups have an input. This is in accordance with guidance from the Communities and Local Government Department.

14.2 There are now three representative members on the Committee representing:

- Employees (nominated by UNISON)
- Pensioners (elected annually by pensioners attending the AGM)
- Scheduled and Admitted Bodies (elected annually by the bodies)

These representative members do not have voting rights and are not permitted to attend any "exempt" items of business or receive the reports or minutes associated with them.

15. Legal Position

15.1 Legislation places the main responsibility for administering the Pension Fund on those elected councillors of the Administering Authority who are appointed to the Pensions Committee. These members are subject to the discipline of the statutory Members Code of Conduct.

15.2 Section 13(3) of the Local Government and Housing Act 1989 gives the Council a discretion whether to confer voting rights and the right to receive exempt information on non-Councillor members of a few specific Committees including Pensions Committees. Therefore if any changes were to be made to the current position, they would need to be agreed by full Council.

16. Proposals for the future

16.1 In order for the Pension Fund to benefit fully from the representative members being on the Pensions Committee, it is proposed that the representative members are able to take part in exempt items and to share fully in the access to information of the Committee on an equal basis with the elected councillors.

16.2 However, given that the nature of the “exempt” items of business is that it is either commercially sensitive or the potential harm caused by its unauthorised public disclosure would outweigh any public benefit from open discussion and debate, a way of ensuring that representative members are bound by confidentiality is required. This is proposed to be addressed through those members being required to sign an undertaking to observe the Members 'Code of Conduct'.

16.3 To ensure that the representative members can participate fully and make use of training provided, it is considered appropriate for them to serve for the same term as the elected councillor members rather than being subject to re-election annually. It is proposed that at the next elections of the pensioner and scheduled and admitted body representatives, the bodies are advised to elect a representative to serve until 2014. It is also proposed Unison are advised of this recommendation in respect of their nominated representative.

Agenda Item 9

Agenda item:

Pensions Committee **On 1 November 2010**

Report Title: **Investment Strategy Review**

Report of **Director of Corporate Resources**

Signed : for DoCR

Contact Officer : **Nicola Webb – Corporate Finance**
Telephone 020 8489 3726

Wards(s) affected: **All**	Report for: Non key decision

1. Purpose of the report

1.1 To outline the proposed next steps for the investment strategy review including a summary of the possible methods for determining asset allocation options.

2. Introduction by Cabinet Member

2.1 Not applicable.

3. State link(s) with Council Plan Priorities and actions and /or other Strategies:

3.1 Not applicable.

4. Recommendations

4.1 That the Committee agree that the model of comparing the risk/return characteristics of different asset allocation strategies is the most appropriate way forward and Hewitts are commissioned on this basis.

5. Reason for recommendations

5.1. This option is the most cost effective way forward for a Fund with a positive cashflow which does not need to address it's liabilities in the short term. This model will allow the Committee to easily compare possible strategies in order to reach a decision.

6. Other options considered

6.1. Asset Liability Modelling was considered, as set out in paragraph 15.2, however it is believed the cost and complexity of the model in a changing landscape for the Pension Fund means it is not the best use of resources in reaching the decisions on investment strategy.

7. Summary

7.1 Two possible methods of determining recommendations for investment strategy have been proposed by Hewitts. Officers recommend that the less costly and complex method of determining the risk/return characteristics of a variety of options is most appropriate.

7.2 The actuary and the investment adviser will attend the Committee's next meeting in December to progress the strategy review.

8. Head of Legal Services Comments

8.1. The Head of Legal Services has been consulted on the content of this report and comments that that the Committee should give full consideration to the advice received concerning the recommendation on determining asset allocation options. Members are reminded of the duty on an administering authority to conduct a coherent overview of investment activity and performance of the Pension Fund in order to ensure the suitability of investments and types of investments.

9. Equalities & Community Cohesion Comments

9.1 There are no equalities issues arising from this report.

10. Consultation

10.1 Not applicable.

11. Service Financial Comments 11.1 The use of the more costly and complex model does not appear to be justified in terms of the benefits it could bring in the current times of uncertainty for the pension scheme structure.
12. Use of appendices /Tables and photographs 12.1 Appendix A: Hewitts review of 4th October 2010 session
13. Local Government (Access to Information) Act 1985 13.1 None

14. Background

14.1 An investment strategy review for 2010/11 was set out in the Pensions Committee's business plan for the year. Formal reviews are undertaken every three years coinciding with the results of triennial valuations.

14.2 An informal meeting and training session with members, officers and the independent adviser to the Committee was held on 4th October 2010 and led by the Pension Fund's investment advisers, Hewitts.

14.3 This report outlines the proposed next steps for the review following on from that meeting including examining the different analytical methods of determining possible investment strategies for consideration by the Committee.

15. Methods for determining strategy recommendations

15.1 At the session on 4th October 2010, Hewitts suggested two possible analytical methods of determining asset allocation options for the Committee to consider. The methods are summarised here with the advantages and disadvantages of each.

15.2 The first possible method is to commission Hewitts to carry out Asset Liability Modelling. This technique runs a large number of scenarios for the Fund's assets and liabilities to determine what the most likely outcome is over the long term. This then determines the optimal asset allocation to meet this outcome. The advantage of this is that it is very detailed and covers many eventualities and it demonstrates a clear trail as to reasons for the asset allocation selected. However running the model is costly (approximately £55-60k), it assumes that relating the Fund's assets to the liabilities is the way the Committee wishes to determine asset allocation and the results could quickly become out of date depending on the recommendations of Lord Hutton's review of public sector pensions and the impact they have on the liabilities.

15.3 The second option is for Hewitts to draw up a number of possible strategies and determine what the expected return and risk level would be for each one. This could compare the current strategy to one invested in different asset classes, such as hedge funds, a more passive strategy, a more aggressive return strategy and so on. This would allow the Committee to compare the expected return and risk characteristics of different strategies to determine the way forward. This method is less expensive (approximately £25-30k) and easier to understand. It accepts the liabilities do not need to be met in the short term and accepts the need to focus on return. The disadvantage is that it is not so detailed and the link with the liabilities is not demonstrable.

15.4 Officers recommend that the second option of comparing the risk and return characteristics of different strategies is used and that Hewitts are commissioned on this basis. Given the current uncertainty about the shape of the scheme and the lack of a requirement to meet the liabilities in the short term, the more costly and complex model does not appear to be cost effective.

16. Next steps

16.1 Hewitts have prepared a summary of the outcomes of the session on 4th October 2010 and this is attached at Appendix A. It is proposed that officers, in conjunction with the Chair, agree the detailed proposal discussed in the note for the next part of the review based on members' agreed way forward in respect of the model to be used. Hewitts are booked to attend the 20th December 2010 Pensions Committee meeting to report to the Committee their recommendations for future strategy.

16.2 The actuary will also be attending the 20th December 2010 meeting to present the results of the triennial valuation of the Fund, which will give members the ability to consider both the assets and the liabilities at the same meeting and ask questions of both the investment adviser and the actuary.

16.3 There is a further Pensions Committee meeting on 20th January 2011 which could be used to bring back any follow up work required for the Committee to reach a decision on the way forward for investment strategy.

APPENDIX A

AON Hewitt

Awayday review and next steps
Date: 12 October 2010
Prepared for: London Borough of Haringey
Prepared by: David Page
David Crum

Awayday review and next steps

Introduction

The purpose of this paper is to summarise the key points that we gathered from the Awayday on 4th October and to propose the next steps in the process.

Key points to take from the meeting

Below are the key points that we took from the awayday:

- There will be little scope to change the employer contributions into the Fund, and so investment returns will be key to reducing the deficit over the recovery period
- As the Fund is currently open, the Committee felt that the investment horizon was open-ended and so investment strategy should be an efficient return seeking portfolio (although it was acknowledged that the investment strategy would need to meet the needs of the recovery plan)
- Due to the level of uncertainly over the valuation of the liabilities, especially with the Hutton review underway, it was felt that the focus of analysis should be on generating returns from the assets, rather that looking at the investment strategy in the context of the volatility of the funding position
- As a result of the above, it was felt that an asset liability study was not necessarily appropriate, and that any analysis commissioned should focus on identifying an efficient investment strategy to generate the required return.
- It was noted that there were essentially three key facets to the investment strategy
  - Long term investment strategy (long term asset allocation)
  - Medium term asset allocation – MTAA - to seek to add value/reduce risk from asset class overweights/underweights on an 18 month to three year timeframe. (This could be achieved either through investment advice received from Aon Hewitt, or by investment in a multi-asset investment mandate where the investment manager makes asset allocation decisions within the mandate to seek to add value
  - Once the asset allocation is agreed, the final consideration is the style of investment management to be used to implement the strategy. The key consideration here will be whether passive or active management (or a combination of both, perhaps as part of a core/satellite approach) is appropriate.
- Whilst the Committee believe that there are active managers who outperform, their experience of active management (with
notable instances) has

not always been good, and the Committee will need to be comfortable in Aon Hewitt's ability to identify managers who will outperform in the future before committing to continued use of active managers

- It was noted that cap weighted benchmarks lead to increased holdings in 'expensive' stocks. Although not mentioned at the meeting, consideration could be given to non cap weighted passive management
- Further information regarding track record should include impact of frictional costs from any transition, as much as possible
- The Committee is receptive to a further diversified investment strategy if it meets their objectives. The Committee will need more information on alternative asset classes before committing to an asset allocation which includes these assets. Specifically, further information on the types of 'hedge fund' strategies and currency management would be useful.

Next Steps

The following next steps were identified at the meeting.

- An educational paper setting out what we mean by hedge funds and active currency (and other asset classes as agreed) and Medium Term Asset Allocation and how this can be implemented.
- Further information on Hewitt's record of identifying active equity managers who outperform (in conjunction with paper already provided answering Howard Jones' queries and any follow up information)
- To agree a detailed proposal for a strategy review in conjunction with the valuation, looking at appropriate investment strategies (including active and passive options), looking at expected returns and risk (expressed as standard deviation) and showing the impact of passive versus active management.

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