



LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE Tuesday 25 September 2012 at 6.30 pm

PRESENT: Councillor S Choudhary (Chair) and Councillors Mrs Bacchus, Crane, Mitchell Murray, Hashmi and BM Patel

Mr Valentine Furniss, the Independent Adviser was in attendance.

Apologies for absence were received from: Mr George Fraser

1. **Chair's announcement**

The Chair introduced Anthony Dodridge the newly appointed Head of Exchequer and Investment to his first meeting. Anthony confirmed that although he started only six weeks ago, he had linked in with his predecessor prior to his departure to ensure continuity.

2. **Declarations of personal and prejudicial interests**

None.

3. **Minutes of the previous meeting**

RESOLVED:-

that the minutes of the previous meeting held on 26 June 2012 be approved as an accurate record of the meeting subject to the following amendments:

- i) Add "Councillor Crane" to the list of members present at the meeting on 28 February 2012.
- ii) In item 6 last sentence, delete all after "monitoring should occur" and replace with "and appropriate action be taken where necessary".

4. **Matters arising**

None.

5. **Deputations**

None.

6. 2011/12 Pension Fund Accounts

Andre White (District Auditor) and Charlotte Goodrich (Audit Manager) from the Audit Commission were present for this item.

The District Auditor informed the Sub-Committee that she had reviewed the financial statements included in the annual report prepared by the Fund and confirmed that they were consistent with the pension fund statements she had audited. She added that the audit of the pension fund accounts was substantially complete and that she planned to issue her audit report including an unqualified opinion on the pension fund statements by 30 September 2012. She continued that the accounts were completed by the due date and were supported by good supporting working papers and audit trails. Members noted that to reflect the council's internal efficiency, the net fee amount payable to the audit Commission for its work had been reduced by £2,800 to £32,200.

Charlotte Goodrich the Audit Manager in outlining the key messages informed members that during the course of the audit she identified two main weaknesses; an internal control weakness over general ledger journals and the concentration of pension fund and investment knowledge. Controls over journals were found to not be operating effectively throughout the full financial year. Out of a sample of 20 journals tested by Internal Audit during the year, 4 were both prepared and authorised by the same officer. This raised the risk that erroneous or unauthorised amounts could be input into the general ledger. As a result, detailed testing on all material year end journals were carried out to obtain sufficient assurance over their validity.

Secondly, during the course of her audit it became apparent that the knowledge of the fund and its investments was largely concentrated in one key member of staff, the former Head of Exchequer who had retired. Other pension fund staff lacked sufficient overall knowledge and understanding of the Council's investments and how they were reflected in the accounts so as to answer audit queries efficiently. Consequently, the completion of the audit took longer than anticipated. In her closing remarks, the Audit Manager stated that despite the internal control issues identified, there were a limited number of errors and queries raised during the course of her audit. This reflected a good standard of working papers supported the accounts and a good working relationship between officers and the audit team. The Audit Manager thanked officers for their help and support throughout the audit.

In response to Councillor Hashmi's enquiry, the District Auditor clarified that her responsibility as the Council's auditor was to consider whether the Pension Fund had put adequate arrangements in place to satisfy itself that the systems of internal financial control were both adequate and effective in practice and in accordance with Auditing Practices Board's ethical standards and CIPFA code of practice. She suggested that in order to address the concentration of pension fund knowledge in one officer, the Council would need to implement systems and processes that would mitigate such risks.

Mick Bowden, Deputy Director of Finance stated that despite the weaknesses identified by the District Auditor, the preparation of the accounts had not suffered, adding that the retired officer cooperated fully with the Audit Commission in their audit prior to his departure. Anthony Dodridge, Head of Exchequer and Investments added that he linked in with his predecessor prior his departure.

RESOLVED

that the audit of the Pension Fund accounts and the findings of the District Auditor be noted.

7. Report from the performance measurement company, WM

Lynn Coventry of WM the performance measurement company attended the meeting for this item. With reference to her report circulated for the meeting, she gave a presentation on the market environment, the total fund performance against strategic benchmark and the local authority average and fund manager performance. Members learnt that over the last year the Fund performance had been poor with returns of -0.2% compared with the benchmark return of 2.8% and the local authority average return of 2.6%. She continued that the below benchmark performance had continued over the medium and longer term. Lynn Coventry added that over the longer term, stock selection had been unfavourable mainly due to the below average returns in overseas equities and the negative impact from asset allocation over the 3 year period mainly due to the Fund's above benchmark commitment to bonds and cash and below benchmark weighting in overseas equity and small cap in 2010. She then drew members' attention to the Fund's manager performance, the fund's return and benchmark return. Lynn Coventry was thanked for her presentation.

The Head of Exchequer and Investment informed the Sub-Committee that he would be reviewing the various asset class benchmarks currently in place with Lynn Coventry. Councillor Crane pointed out that poor returns of the funds was a result of collective harm by erstwhile fund managers.

RESOLVED:

that the report by WM performance measurement be noted.

8. The proposed new Local Government Pension Scheme 2014

In November 2011 officers reported on the consultation for cost saving measures for the Local Government Pension Scheme (LGPS). The proposals were that under the current scheme, increased employee contributions and reduced accrual would be the mechanisms used to achieve savings of £900 million by April 2015 – the proposed date of the new scheme. The consultation resulted in amended proposals to consolidate scheme design and cost savings in a new scheme in 2014. The report before members provided a summary of the proposals and officers' response to the recent consultation regarding the scheme.

Andy Gray, Pensions Manager in introducing the report stated that the aim of the Independent Public Service Pension Commission final report delivered in March 2011 was that all public sector pension schemes would move from a final salary to a Career Average Re-valued Earnings (CARE) scheme. He highlighted the main components of the outline agreement reached by employee unions, employers and the Government as follows:

- Career Average Revalued Earnings (CARE);
- 1/49th accrual rate with revaluation based on Consumer Prices Index (CPI);
- Retirement linked to State Pension Age (SPA);
- Contributions based on actual pay (including part time employees) with the average employee contribution remaining at 6.5%;
- Retention of banded employee contributions;
- 50/50 scheme option enabling members to pay half contributions for half the pension, with most other benefits remaining as they are currently;
- Protection of benefits for service prior to 1 April 2014 including 'Rule of 85'. Protected past service would continue to be based on final salary and current retirement age;
- Outsourced scheme members would be able to stay in the scheme on first and subsequent transfers;
- Vesting period (when members can get a refund on their contributions if they leave the scheme) would be increased from 3 months to two years.

He continued that it was the opinion of officers that the scheme was likely to remain relatively attractive and would continue to offer good quality salary related benefits although administratively more difficult to understand.

RESOLVED:

that the report on the proposed new Local Government Pension Scheme (LGPS) be noted.

9. **Monitoring report on fund activity for the quarter ended 30 June 2012**

The Sub-Committee received a report that provided a summary of fund activity during the quarter ended 30 June 2012 and examined the actions taken together with the economic and market background, and investment performance and comments on events in the quarter. The following headlines were noted:

Equity markets fell in the second quarter, and government bonds rose in value amid concerns over an uncertain economic outlook and the Euro debt crisis. The Fund fell in value from £485m to £478m however, its return of -1.2% was broadly in line with its quarterly benchmark of -1.1% and compared favourably to the WM Local Authority average fund return of -1.9% for the quarter. Members heard that the fund was within the top quartile of investment returns for the quarter ended 30 June 2012 with a ranking of 16 out of 82 LGPS funds who currently subscribe to the WM performance reporting service. The Head of Exchequer and Investments drew members' attention to the respective tables within the report which showed that the marginal underperformance could be attributed to poor results in emerging market equities, UK smaller companies equities, and hedge fund of funds. He then

highlighted the salient aspects of the main market movements as set out in his report.

Valentine Furniss, the Independent Adviser circulated a further update on his investment report at the meeting. It was noted that equity returns were: the Asia/Pacific region (+5.4%) and Emerging Markets (+2.1%) and the other end of the spectrum was Japan with a negative return of 2.2%. He ascribed the positive equity returns for the month compared to the quarter ending June 2012 to overselling and most importantly, the perception that the ECB, IMF and the German Government might at last find a genuine fiscal solution to the Eurozone crisis.

In conclusion, he stated that although equity markets would become less volatile against a background of gradually improving macro-economic data. Within the Fixed Interest area most subsector returns were expected to be flat especially when adjusted for inflation.

10. **Work Programme**

The Head of Exchequer and Investments sought members' views on the formats of meetings and any specific topics they would like to be reported on at future meetings. The following suggestions were noted:

- i) Review of fund managers' fees
- ii) Training sessions on selected mandates prior to meetings.
- iii) Review of format fund managers' reports to ensure reduced reliance on pictorial reports (graphs, charts etc.)

11. **Any other urgent business**

12. **Date of next meeting**

The next meeting will take place on Tuesday 20 November 2012.

13. **Exclusion of press and public**

RESOLVED:

that the press and public be excluded for the remainder of the meeting as the following reports to be considered contained a category of exempt information as specified in paragraph 12A of the Local Government (Access to Information) Act 1972, namely;

Information relating to the financial or business affairs of any particular person (including the Authority holding the information).

14. Review of subscriptions

Members gave consideration to a report that set out options to ensure that the Fund achieved value for subscriptions to bodies, given the significant squeeze on public sector spending.

RESOLVED:

that the recommendations set out in the report by the Head of Exchequer and Investments be agreed.

15. Hedge funds of funds mandate - Fauchier Partners

The report before members considered the hedge funds of funds mandate and proposed options for the future.

RESOLVED:

that the recommendations set out in the report by the Head of Exchequer and Investments be agreed.

The meeting closed at 8.45 pm

S CHOUDHARY
Chair