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BRENT COUNCIL

Brent Pension Fund Sub-Committee

Tuesday, 28 June 2011 at 6.30 pm
Committee Room 4, Brent Town Hall, Forty Lane, Wembley, HA9 9HD

Membership:

Members Councillors:	**first alternates** Councillors:	**second alternates** Councillors:
S Choudhary (Chair)	Denselow	Gladbaum
Mrs Bacchus	Oladapo	Daly
Crane	Harrison	Hector
Mitchell Murray	Hirani	Hossain
Brown	CJ Patel	
Hashmi	CJ Patel	
BM Patel	HB Patel	Baker

Non Voting Co-opted Members

Ashok Patel	College of North West London
George Fraser	GMBU

For further information contact: Joe Kwateng, Democratic Services Officer
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The press and public are welcome to attend this meeting

recycle for Brent

Agenda

Introductions, if appropriate.

Apologies for absence and clarification of alternate members

8	**Monitoring report on fund activity for the quarter ended**	13 - 32

This report from the Head of Exchequer and Investment provides information on Brent Pension Fund activity for the quarter ended 31 March 2011 and examines the actions taken, the economic and market background, and investment performance together with comments on events in the quarter.

In relation to this item, I have circulated reports from Henderson Global Investors, Legal & General Managers and Fauchier Partners.

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9	**Business and Training Plans for 2010/11 and Business Plans for 2012/14**	33 - 36

This report outlines the planned activities of the Pension Fund Sub Committee for the year to February 2012, and the three years to February 2014.

Ward affected: All Wards; ***Contact Officer**:* Martin Spriggs, Exchequer and Investment

Tel: 020 8937 1472
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10	**Pension Funds Accounts 2010/11**	37 - 56

This report from the Head of Exchequer & Investment sets out the Pension Fund Accounts for the municipal year 2010/11.

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11 Any Other Urgent Business

Notice of items to be raised under this heading must be given in writing to the Democratic Services Manager or his representative before the meeting in accordance with Standing Order 64.

12 Date of Next Meeting

The next meeting of the Brent Pension Fund Sub-Committee is scheduled to take place on Tuesday 27 September 2011 at 6:30pm.

Please remember to ***SWITCH OFF*** your mobile phone during the meeting.

- The meeting room is accessible by lift and seats will be provided for members of the public.
- Toilets are available on the second floor.
- Catering facilities can be found on the first floor near the Paul Daisley Hall.
- A public telephone is located in the foyer on the ground floor, opposite the Porters' Lodge

LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE
Tuesday, 1 March 2011 at 6.30 pm

PRESENT: Councillor Brown (in the Chair) and Councillors Mrs Bacchus, Brown, Hashmi, BM Patel and George Fraser (Non-voting co-optee).

Clive Heaphy (Director of Finance and Corporate Services), martin Spriggs (Head of Exchequer & Investment) and valentine Furniss (Independent Adviser) attended thge meeting.

1. **Election of Chair**

In the absence of the Chair, Councillor Brown was elected as the Chair for the meeting.

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

None.

3. **Matters arising**

None.

4. **Minutes of the previous meeting - 30 November 2010**

RESOLVED:-

that the minutes of the previous meeting held on 30 November 2010 be approved as an accurate record of the meeting.

5. **Deputations (if any)**

None.

6. **Audit Plan for the 2010/11 audit of Brent Pension Fund**

This report introduced the Audit Opinion for Brent Pension Fund Accounts 2010/11. Martin Spriggs, Head of Exchequer & Investment introduced Paul Viljoen and Gary McLeod from The Audit Commission to the Sub-Committee. At the start of his presentation, Paul Viljoen informed the Sub-Committee that this report was being presented to members as a requirement by the Department for Communities and Local Government (DCLG) regulations which required each local government pension fund to produce a separate annual report and accounts. He added that in addition to a separate Annual Accounts by the Brent Pension, The Audit had produced an Audit Opinion Plan for the 2010/11 Pension Fund Accounts.

Gary McLeod from The Audit Commission in his presentation outlined the assumptions and the basis of the indicative fee for the audit of £35,000 as indicated in his letter of 16 June 2010. He continued that the audit of the financial statements would be carried out in accordance with International Standards on Auditing and that he would issue an audit report giving their opinion on whether the accounts gave a true and fair view of the financial position of the Pension Fund by 30 September 2011.

In response to members' questions, Gary McLeod clarified that the audit team would meet with key contacts of the Council and review queries so as to ensure that the initial audit is completed by 30 August. Clive Heaphy, Director of Finance and Corporate Resources added that his staff would ensure that all deadlines were to ensure compliance with the target completion date.

RESOLVED:

that the Audit Opinion Plan 2011 be noted.

7. **Actuarial Valuation 2010**

The Sub-Committee received a report which outlined the anticipated results of the Actuarial Valuation as at 31st March 2010 and indicated that due to deterioration in the funding position, the employers' contribution rates would rise.

Martin Spriggs, Head of Exchequer and Investment informed members that a representative of AonHewitt would a presentation about the funding position since 2007 from £499m to £456m and the deficit from £193.5m to £295.4m. He explained that the main factors for the decline were poor investment returns, staff longevity and low gilt yields. Although future service contribution had decreased marginally, mainly as a result of the switch from the retail price index to the consumer price index rates, overall contribution rates would rise as a result of the rising deficit and falling payroll contributions. He drew members' attention to the revised Funding Strategy Statement (attached as appendix 1 to the report) which reflected how the fund would meet its liabilities as they fell due.

CR confirmed that the 2007 Valuation had found a £193m shortfall (funding ratio of 72%). She gave an overview of the 2010 valuation, confirming a funding shortfall of £295m, and a funding ratio of 61%. CR drew members' attention to the table of employer contribution rates for 2011/12 through to 2016/17 and added that contributions from 1 April 2014 would be reviewed as part of the 2013 actuarial valuation of the Fund.

In response to members' questions, Ms Rice stated that the impact of inflation would not constitute a significant risk on the fund's position as there were checks and balances to correct any imbalances that may occur. She assured members that as there was surplus of income over costs there was no need to panic.

RESOLVED:

that the anticipated results of the actuarial valuation 2010 be noted.

8. **Report from Gartmore Investment Managers**

AM gave an update on the current UK Small cap team at Gartmore. He confirmed that, despite the takeover by Henderson Global investors, Gartmore had retained most of its key personnel and that its investment processes and approach would not change. He discussed the investment processes followed by the team and some of their favourite companies.

In looking to the future, AM predicted that economic growth (GDP) would be tepid in 2011 and that large cap stocks were unlikely to grow faster than GDP. He warned that dependence on quantitative easing could create inflationary pressures within the economy as monetary stimulus was likely to leak into commodity prices and emerging markets.

Mr Adam McConkey and Mr Martin Powis were thanked for their presentation.

RESOLVED:

that the update by Gartmore Investments be noted.

9. **Monitoring report on fund activity for the quarter ended 31 December 2010**

The Sub-Committee considered a report that provided a summary of fund activity during the quarter ended 31st December 2010.

MS informed members that equity markets rose during the quarter, bond markets fell on concerns about inflation and economic growth and that other markets rose but less rapidly. The Fund had risen in value from £454m to £476m, and outperformed its benchmark over the quarter (1%) as a result of stock selection. The Fund underperformed the average local authority fund (-0.3%), with performance reduced by low exposure to equities offset by good stock selection in equities and GTAA. Over one year, the Fund had outperformed its benchmark (+0.7%) as a result of higher exposure to equities and good stock selection (equities, bonds, private equity and GTAA), but had underperformed the average fund (-3.3%) as a result of lower exposure to equities / higher exposure to alternative assets. Martin Spriggs gave detailed analysis of individual managers' performance and the main actions that had taken place during the quarter.

The Independent Adviser stated that with the level of inflation rising, interest rates were likely to be increased around summer 2011. As the austerity measures put in place by the present Government was likely to bite for about 3 years, he predicted an increase in unemployment in the UK economy. This contrasted with the Asian Pacific economies which were likely to experience strong growth. In conclusion, he stated that equities and hedge funds of funds would outperform, and that the UK economy should grow.

RESOLVED:-

that the monitoring report on fund activity for the period ended 31 December 2010 be noted.

10. **Any other urgent business**

None.

11. **Exclusion of press & public**

RESOLVED:

That the press and public be excluded from the remainder of the meeting as the report to be considered contained the following category of exempt information as specified in the Local Government Access to Information Act 1972, namely;

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

12. **Transition to Legal & General Investment Management**

Members received a report that detailed the cost of transitions from the UK in-house and the AllianceBernstein Ltd. global equity portfolios to Legal and General Investment Management (LGIM). The report also provided Members with progress with the appointment of an emerging Markets Manager.

RESOLVED:

that the cost of transition to LGIM and progress with an Emerging Markets manager be noted.

13. **Date of next meeting**

The date of next meeting would be announced after the full Council meeting on 16 May 2011.

The meeting closed at 9.08 pm

D BROWN
In the Chair

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LONDON BOROUGH OF BRENT

MINUTES OF THE BRENT PENSION FUND SUB-COMMITTEE
Tuesday 1 March 2011 at 9.15am

PRESENT: Councillor S Choudhary (Chair), Councillor and Councillors Mrs Bacchus, Crane, Brown, Hashmi, BM Patel, Hossain and George Fraser

Apologies were received from: Councillor Mitchell Murray and Mr Ashok Patel

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

   None.

2. **Exclusion of press and public**

   RESOLVED:-

   that the press and public be excluded from the meeting as the report to be considered contained the following category of exempt information as specified in Schedule 12A of the Local Government Act 1972, namely;

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

3. **Appointment of emerging market equities manager**

   Following a briefing, members heard presentations from and interviewed three managers after which it was;

   RESOLVED:-

   that Brent would invest in the pooled emerging markets fund managed by Dimensional Fund Advisers.

The meeting closed at 1.50 pm

S CHOUDHARY
Chair

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	Pension Fund Sub Committee 28 June 2011 **Report from the Director of Finance and Corporate Services**
For Action/Information * delete as necessary	Wards Affected: ALL

Contract for the provision of pension administration services

1.0 Summary

1.1 This report informs members of the council's decision to award the pensions administration contract to Capita Hartshead.

2.0 Recommendations

2.1 That members note the migration of the pension service to a new contractor

3.0 Detail

3.1 Since 1999, the London Pensions Fund Authority (LPFA) has acted as the council's contractor for the payment of benefits, such as pensions and lump sums.

3.2 On 15 February 2010 the Executive approved proposals for the council's participation in a collaborative procurement exercise leading to the establishment of a single supplier framework agreement by the London Borough of Hammersmith and Fulham (LBHF) for the provision of services for the administration of the Local Government Pension Scheme (LGPS). As LBHF was leading on the procurement, members also agreed that the collaborative procurement exercise was exempt from Brent's Contract Standing Orders and Financial Regulations, with LBHF's own Contract Standing Orders and Financial Regulations being applied instead.

3.3 Framework contracts represent potential efficiencies and financial savings to local authorities. This is because the framework holder has already created the specification and gone through the procurement process - other councils can join that framework (known as a call off) without going through those processes. It also means that as more councils join, the contractor can achieve economies of scale and deliver more savings and that the framework holders can work collaboratively with the contractor to achieve standard procedures and best practice.

3.4 Officers from Brent and LBHF worked closely on all stages of the procurement, including setting the procurement timetable, agreeing evaluation criteria and creating the specification, as well as the other tender documentation for the proposed framework agreement and call-off contracts for Brent and LBHF.

3.5 Westminster and Kensington and Chelsea councils have expressed an early interest in the framework and assisted in the evaluation of the tender of the final bidders

3.6 The Tender Evaluation Panel identified Capita Hartshead as submitting the most economically advantageous tender for appointment to the framework agreement. This is because it scored consistently highly across all quality criteria and also submitted the lowest priced tender.

Financial Implications

4.1 The Council's Contract Standing Orders require that contracts for services exceeding £500,000 or works contracts exceeding £1million shall be referred to the Executive for approval. The estimated value of this contract exceeds that threshold. The cost of the council's current pension administration contract is £304,525.00 per annum. The annual cost of the preferred bid is £245,104.00.

4.2 The savings against the current contract cost are as follows:

Annual saving	=£ 59,421.00
Saving over contract term (six years)	=£356,526.00
Maximum saving with extension (eight years)	=£475,368.00

4.3 Under the terms of the framework agreement the contractor will apply a discount to the contract cost as more councils join that framework. Details of the discount percentages applicable are provided below.

Number of Authorities included in Framework	Percentage reduction that will be applied
3 to 4	1%
5 to 8	1.10%
9 to 12	1.20%
13 to 16	1.30%
17 to 20	1.40%
21 or more	1.50%

4.6 In the current economic climate the number of current contributors has reduced e.g. redundancy and early retirements have increased. This has meant that there has been an increase in deferred beneficiaries (early leavers whose pension benefits are frozen until they reach retirement age) and pensioners. The administration of deferred and pensioner members costs less than current members. In the light of the current trend, bidders were asked to provide a price per member according to their status. If the current trend towards a declining active membership continues the cost of the contract will reduce.

5.0 Legal Implications

5.1 These were reported to the meeting of the Executive 13th June and no issues arose from these

6.0 Diversity Implications

6.1 The proposals in this report have been subject to screening and officers believe that there are no diversity implications.

7.0 Staffing/Accommodation Implications

7.1 This service is currently provided by an external contractor and there are no implications for Council staff arising from retendering the contract.

Contact Officers

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Pensions Manager

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Clive Heaphy
Director of Finance and Corporate Services

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	Pension Fund Sub Committee 28th June 2011 **Report from the Director of Finance and Corporate Services**
For Action	Wards Affected: ALL
Report Title:	**Monitoring report on fund activity for the quarter ended 31st March 2011**

1. SUMMARY

This report provides a summary of fund activity during the quarter ended 31st March 2011. It examines the actions taken, the economic and market background, and investment performance, as well as commenting on events in the quarter. The main points arising are:

a) Equity markets rose marginally during the quarter. Bond markets fell, on concerns about inflation and strengthening economic growth. Other markets also rose, but less rapidly.

b) The Fund has risen in value from £476m to £486m, and has outperformed its benchmark over the quarter (+0.3%) as a result of stock selection (outperformance in bonds, infrastructure, GTAA and private equity). The Fund outperformed the average local authority fund (+0.3%), mainly as a result of good returns in infrastructure and GTAA. Over one year, the Fund has equalled its benchmark (+2.1%). Over one year, the Fund has underperformed the average fund (-1.5%) as a result of lower exposure to equities / higher exposure to alternative assets and poor performance in global equities, hedge funds and private equity, offset by good performance in GTAA, infrastructure and UK small companies.

2. RECOMMENDATIONS

Members are asked to note this report.

3 DETAIL

ECONOMIC AND MARKET BACKGROUND - QUARTER ENDED 31ST MARCH 2011

3.1 Equity markets rose marginally during the quarter, despite the market volatility occasioned by the earthquake and tsunami in Japan. The UK and Asian markets hardly changed, Europe rose by 1%, USA 4%, and Japan fell by 5%. The UK economic background was:

- UK base rates remained at 0.5%. Medium and long-term interest rates fell marginally during the quarter. Concerns about the European banking system and various eurozone countries (Greece, Ireland, Portugal and Spain) have affected these markets, but UK has benefited from a safe haven status.Rates may rise to head off inflationary expectations, but the timing is uncertain. Markets expect rates to rise to around 2% by the end of 2013.

- Headline inflation (RPI) rose by 5.2% in the year to May (4.7% January), and the Index of Consumer Prices (CPI) rose by 4.5% (4% January). It is expected that inflation will rise in the short term, keeping well above the Bank of England 2% target for 2011, but should fall over a two year period as spare capacity and low pay increases bear down on prices.
- Average earnings growth (including bonuses) was 2.3% p.a. in March (1.1% December), below the Bank of England's 'danger level' (4.5%). Unemployment (claimant numbers) has fallen to 1.47m, but may rise as public expenditure is reduced and taxes raised following the recent budget.
- The UK economy shrunk by 0.5% in Q4 2010 (growing by 1.4% in 2010), following disruption from poor weather and a slowdown in growth. GDP rose by 0.5% in Q1 2011 (1.8% year on year), and is expected to grow by 1.5% in full year 2011.
- It has been anticipated that consumer spending will fall, though retail sales were up 2.8% in the year to April. The squeeze on incomes and the rising pricve of commodities may depress demand. House prices have fallen by 4.2% over one year to May (Halifax). Mortgage approvals are only 60% of their level two years ago. Capital Economics still expects further house price falls (15%/20%).

In summary,the UK economy is growing at a very gentle rate but interest rates are expected to remain low. The government was using both fiscal and monetary policy to combat the downturn, but fiscal policy is being tightened over the next four years. The recovery is expected to be slow with occasional setbacks.

3.2 Central banks have co-ordinated activity to supply liquidity to markets so that credit is available to support economic activity. It is expected that the USA economy will grow by 3% in 2011 following tax cuts and quantitative easing (QE) programmes. Improved payroll data, strong retail sales and a rebound in home construction have indicated that a recovery is underway, but house prices continue to fall. It is anticipated that company earnings will improve. However, the impact of the Japanese earthquake on world supply lines is expected to be negative. It is expected that Eurozone GDP will grow by 1.5% in 2011, supported by strong growth in Germany, but an increase in rates by the ECB may hit peripheral markets hard. Growth in China and India is forecast to be around 10% in 2011 – emerging market growth is strong and providing export growth to developed economies. China has raised interest rates and tightened banks' reserve requirements, while India has also raised rates. The world economy is expected to grow by between 3% and 4% in 2011.

3.3 A paper on market events and future prospects, written by the Independent Adviser, is attached.

3.4 Table 1 below shows the changes in asset allocation, how asset allocation compares with the benchmark and with the average fund (WM Local Authority average), and how the change in the market value during the quarter is allocated across asset classes. Items marked (*) in columns 4 and 8 cannot be separately analysed, but are included elsewhere. The WM Local Authority average asset allocation indicates little change apart from increased exposure to alternative assets.

Table 1: Asset Allocation as at 31st March compared to the Benchmark

Market (1)	Market Value 31.03.11 £M (2)	Market Value 31.03.11 % (3)	WM LA Average 31.03.11 % (4)	Fund Benchmark 31.03.11 % (5)	Market Value 31.12.10 £M (6)	Market Value 31.12.10 % (7)	WM LA Average 31.12.10 % (8)
Fixed Interest							
UK Gilts	15.6	3.2	10.3	4.5	17.5	3.7	9.5
Corp.Bonds	24.0	4.9	*	4.5	23.8	5.0	*
IL Gilts	1.7	0.3	4.6	-	-	-	4.7
Overseas	0.0	0.0	2.6	-	-	-	2.2
Emerg. Market	8.3	1.7	-	2.0	8.4	1.8	-
Infrastructure	0.9	0.2	-	-	0.9	0.2	-
Secured loans	4.6	0.9	-	2.0	4.4	0.9	0.7
Credit Opps.	9.2	1.9	-	2.5	12.1	2.5	*
Credit Alpha	12.5	2.6	-	2.5	12.3	2.6	*
Currency Fund	0.6	0.1	-	-	0.6	0.1	
Equities							
UK FTSE350	72.8	15.0	31.1	12.5	72.3	15.2	30.9
UK Small	15.8	3.3	*	4.0	15.9	3.3	*
O/seas - developed	122.5	25.2	35.6	22.5	116.4	24.5	34.4
O/seas – emerging	36.6	7.5	*	8.0	37.1	7.8	*
Other							
Property – UK	26.6	5.6	6.3	8.0	25.2	5.3	6.0
Property – Eu.	6.9	1.4	*	*	6.6	1.4	*
Hedge funds	42.3	8.7	1.5	10.0	42.0	8.9	2.4
Private Equity	49.1	10.1	3.1	10.0	47.8	10.1	3.0
GTAA	18.8	3.9	1.0	4.0	16.5	3.5	1.7
Infrastructure	8.1	1.7	*	2.0	5.3	1.1	*
Cash	9.0	1.9	3.7	1.0	11.0	2.1	3.6
Total	**485.9**	**100.0**	**100.0**	**100.0**	**476.1**	**100.0**	**100.0**

3.5 The main changes to the Brent Fund have occurred as a result of market movements, increased exposure to private equity (£0.8m), property (£1m), GTAA (£2m) and infrastructure (£1.9m). Since the end of the quarter there has also been further investment in UK property (£0.3m), UK Small companies, infrastructure and private equity.

Performance of the Fund

3.6 The independent WM Company measures the returns on the Brent Pension Fund. Table 2 sets out returns for the quarter to 31st March 2011.

Table 2: Investment Returns in Individual Markets

Investment Category	RETURNS						Benchmark/ Index Description
	Quarter Ending 31.03.11			Year Ended 31.03.11			
	Fund %	Benchmark %	WM Local Auth %	Fund %	Benchmark %	WM Local Auth %	
Equities			1.4			9.2	
UK FTSE350 Equities	0.5	1.1	1.0	9.4	8.6	9.7	FTSE 350
UK Small Caps	-0.2	0.3		19.4	15.2		FTSE Smallcap ex IT
Overseas - developed	3.5	3.5	1.6	4.0	-	8.9	FTSE World 75% Hedge
Overseas - emerging	-1.2	-1.2	-0.7	-	-	-	FTSE AW - All emerging
Fixed Interest							
Total Bonds	1.0	0.5	0.4	5.2	4.5	5.7	Brent benchmark
UK Bonds	-0.5	-0.8	0.8	6.0	5.1	6.0	FTSE UK over 15 years
Index Linked UK	-	-	0.1	-	-	6.6	-
Corp Bonds	1.0	0.9	-	5.4	5.2	-	iBoxx Sterling Non-gilt
Secured Loans	4.1	0.9	-	10.6	3.7	-	3 month LIBOR +3%
Credit Opportunities fund	2.0	1.4	-	5.8	5.7	-	3 month LIBOR+5%
Other							
UK Property FOF	2.0	2.3	2.0	12.5	10.7	9.2	IPD Pooled index
Eu Property FOF	6.2	1.9	-	4.5	8.0	-	IPD All properties
Hedge Funds	0.7	1.2	1.4	1.0	4.6	5.7	3 month LIBID+4%
Private equity	1.7	0.1	4.5	5.8	0.4	10.3	LIBID 7 Day
Infrastructure	12.5	3.6	-	13.1	10.6	-	3 Month LIBID +4%
GTAA	2.0	1.1	-	27.2	7.4	-	FTSE 100
Cash	0.9	0.1	0.0	2.1	0.4	2.1	GPB 7 DAY LIBID
Total	**1.6**	**1.3**	**1.3**	**6.7**	**6.7**	**8.2**	

3.7 Returns for the quarter outperformed the benchmark by 0.3%, following outperformance in bonds, infrastructure and private equity. The main stock selection factors were:-

a) Fixed interest. Both the core and satellite portfolios outperformed their investment target. In particular, the satellite fund rose in value as secured loans and the credit opportunities funds added value.

b) Infrastructure. Capital values rose as management activities in such areas as shale gas and ports added value.

c) GTAA. The manager outperformed in January and February, but lost most of their gains as markets reversed following the Japanese earthquake. All four strategies lost value in March as the yen rose, stock markets fell, and bonds rose on flight to safety moves. However, all four strategies added value for the quarter as a whole. In particular, the bond market allocation added value through overweighting US and Australian bonds.

d) Property. In the UK, there have been new entrants to the Fund, allowing the manager to purchase assets at a discount. The manager expects the market to fall slightly this year, and is positioning the fund to avoid lower quality assets. Outperformance has arisen as a result of above average exposure to the City and West End of London Property markets, leisure and student housing. In European property, returns rose. The European market has begun to improve, and the manager is finding new funds to commit cash.

e) Hedge funds. In benign markets, the manager added value from equity hedged, long bias macro managers, event driven, and multiple strategies. Short bias managers continued to underperform. Fauchier have been active in removing managers that are suffering style drift or have become over cautious, and has increased exposure to event driven and specialist credit managers.

3.8 Over one year, the Fund equalled the benchmark. Asset allocation lost value through overweights in UK equities and underweights in UK Small companies. Stock selection added value – UK equities, UK Small Cap, bonds, GTAA and private equity outperformed the benchmark, while overseas equities and hedge funds underperformed.

3.9 The Brent fund has outperfomed the WM Local Authority average for the quarter (0.3%) as a result of good returns from credit (the fixed interest satellite portfolio), overseas property, infrastructure and GTAA.

3.10 The Brent fund has underperformed the average local authority fund by 1.5% over one year, mainly because it has had a lower exposure to equities (higher exposure to alternatives – mainly hedge funds and private equity) in a period when equities have performed strongly. However, there has been outperformance in UK small companies, infrastructure and GTAA, partially offset by underperformance in overseas equities, hedge funds and private equity.

Actions taken by the Brent In-House UK Equity Manager during the Quarter

3.11 The main activity during the quarter was further action to rebalance the portfolio so that tracking error was reduced following the transfer to LGIM. This has involved selling FTSE 250 stocks. There have also been some purchases and sales during this quarter to invest dividends (£0.9m), improve tracking error, pay retirement lump sums, and invest in private equity.

<u>Purchases</u>
a) Took up rights issues.
b) To reduce tracking error.

<u>Sales</u>
a) Sold stocks to ensure more accurate index tracking or as they left the index.
b) Sold stocks to fund investment elsewhere or to pay retirement lump sums.

Future Strategy for the UK FTSE350 Index tracking fund

3.12 The strategy is that of tracking the FTSE 350 within 0.5% over the year. Activity during April and May included buying and selling stocks to improve tracking error and to invest dividends.

NEW DEVELOPMENTS AND FUTURE INVESTMENT OUTLOOK FOR THE BRENT FUND

3.13 Markets have been steady during April and May. The property manager expects UK property market growth to be very low in 2011.

3.14 Henderson Global Investors has completed the takeover of Gartmore Asset Management. The Gartmore small company team will remain as a discrete unit within Henderson. It is intended that exposure will be increased back to benchmark over a period.

3.15 Fauchier Partners advised that the opportunities in distressed debt are less than expected, so it is not worth Brent joining a new fund. However, the manager has expanded exposure to distressed debt within the Jubilee Fund, so Brent will still get access to opportunities that appear.

3.16 The transfer of emerging market equity investment from LGIM to Dimensional Fund Advisers is expected to occur early in July.

3.17 As part of the quarterly meetings that officers and the Independent Adviser hold with managers, we have discussed asset allocation issues with Henderson Global Investors and Capital Dynamics. Henderson has advised that the actions previously taken by the sub committee to establish core and satellite portfolios remains appropriate. Capital Dynamics has confirmed that Brent's exposure to private equity is likely to rise above the 10% target, mainly because the Brent Fund has not grown as much as was hoped and because disposals have been slow, but that investment in future funds will be scaled back to reduce the excess.

3.18 The infrastructure manager, Alinda, continues to invest in new assets and improvements to the assets owned. The Fund has invested in water treatment (sewerage), container terminal facilities, shale gas pipelines, an internet communications network, and car parking facilities. With the exception of the container terminal facilities, the invesments are in USA.

4. FINANCIAL IMPLICATIONS

These are contained within the body of the report.

5. STAFFING IMPLICATIONS

None directly.

6 DIVERSITY IMPLICATIONS

The proposals in this report have been subject to screening and officers believe that there are no diversity implications arising from it.

7 LEGAL IMPLICATIONS

There are no legal implications arising from the report.

8. BACKGROUND INFORMATION

Henderson Investors – March 2011 quarter report
Legal & General – March 2011 quarter report
Fauchier Partners – March 2011 quarter report

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Report from the Independent Adviser

Investment Report for the Quarter ended 31st March 2011

Market Commentary

Seldom, in any quarter, have so many adverse factors and events coincided to affect the global markets for almost all asset classes.

The obvious and much reported adverse factors were as follows:-

- The devastating earthquake and tsunami in the Sendai region of Japan which caused so much human suffering and homelessness, and the disruption both to the economy and to supply chains of vital goods and services.
- The people power rebellions in Tunisia and Egypt, which were followed by similar confrontations in other North African and Middle Eastern countries. The most serious rebellion appears to be against the Gaddafi regime in Libya with the possibility that the country could become a failed state and be riven by civil war. Like it or not, one of the most worrisome concerns about the uprisings is the future ownership of important oil fields and possible disruption of their supply systems. As a result the rising price of crude oil would have implications for global inflation rates.
- Bank stress tests served to highlight the continuance of large deficits in the peripheral Eurozone countries, particularly Greece, Ireland and Portugal and triggered fears that the contagion effect might permeate Spain.
- In most areas of the world inflation was on the rise caused by the soaring prices of energy, food and commodities both soft and hard.The consequence of this has been further hardship for household incomes both in the UK and globally.

The index returns and currency movements both for the quarter and year ended 31st March 2011 are shown in the tables below.

Index returns expressed in sterling

		Q/e 31 March 2011
		%
Equities		
Europe	FTSE Developed Europe (ex UK)	5.4
North America	FTSE North America	3.4
UK	FTSE All Share	1.7
Asia/Pacific	FTSE Developed Asia Pacific (ex Japan)	0.6
Emerging Markets	MSCI Emerging Markets Free	-1.4
Japan	FTSE Developed Japan	-7.6
Fixed Interest		
Corporate Bonds	Merrill Lynch Sterling – Non Gilts All Stocks	1.0
UK Gilts	FTSE British Government All Stocks	0.8
UK Index Linked Gilts	FTSE British Government IL Over 5 years	-0.4
***Property**	IPD	Not available
Cash	Merrill Lynch LIBOR 3 Month	0.2

* The IPD index returned 1.4% over January and February.

Currency Movements for quarter ended 31st March 2011

Currency	31st December 2010	31st March 2011	Change %
USD/GBP	1.566	1.603	+2.4
EUR/GBP	1.167	1.130	-3.2
USD/EUR	1.342	1.419	+5.8
YEN/USD	81.105	82.880	+2.2

Considering the barrage of bad news, the quarterly index returns shown in the table above were remarkably resilient. All the more so in the light of the obviously weak returns earlier in the reported quarter, particularly in the month of January.

The back marker in the quarterly returns was Japan (-7.6%) which was understandably very badly affected by the earthquake and tsunami. Although emerging market equities returned a negative 1.4% this was a strong recovery from January's return of (-4.9%). Top place on the equity leader board was Europe up a robust 5.4%. This should be seen as distinctly surprising in view of the continuing acute financial problems of Greece, Ireland and Portugal and the parlous state of their economies. It was caused in part by investors buying quality high yield equities which had become patently over sold. The engine of European growth, namely the German economy, has continued to power along. North America (+3.4%) was also a credible performance as it appears, from a global perspective, to have been seen as a relatively safe haven. The UK was above water (+1.7%) despite the severe austerity measures of the coalition government. The Asia/Pacific region turned in a muted (+0.6%) return because of fears of heightened inflation in China together with its interest rate rises and the effect that lower Chinese demand might have within the Asia/Pacific region as a whole.

Fixed Interest returns managed to end the quarter in modest plus territory with the exception of index linked (-0.4%). Property continued its recovery at a consistently modest, but consistent, pace with the IPD UK property return 1.4% higher over January and February.

UK

Positive Influences

- The purchasing managers' index for March increased to 57.1 from 52.6 in February, much higher than forecast.
- The Office for National Statistics (ONS) reported that the services sector output grew by 1.3% in January (December -1.1%).
- The Budget on 22nd March held few surprises and was generally taxation neutral. However, corporation tax is to be cut by 2.0% to 26% from April.
- The British Retail Consortium reported that in February total sales advanced 1.1% p.a., but much of this rise was due to the rise in VAT.

Negative Influences

- The Statoil company of Norway put on hold 2 oil and gas projects in UK waters worth £6.25B because of the British government's increased tax on oil production.
- The current account deficit increased to £10.5B in the fourth quarter of 2010 compared with the £8.7B deficit in the previous quarter.
- The Budget contained the following more realistic Government estimates:-

  - 2011 GDP cut from 2.1% to 1.7% (2012 GDP from 2.6% to 2.5%)
  - 2011 inflation raised from 3% to 4.5% (2012 inflation from 1.9% to 2.5%).
- The Organisation for Economic Co-operation and Development (OECD) cut its economic growth estimate for 2011 from 1.7% to 1.5%.
- CPI inflation in February increased to 4.4% p.a. against 4.0% p.a. for January. This compares with the Bank of England's target of 2.0%.
- The ONS reported February retail sales volumes slipping by 0.8%.
- On 16th March the ONS stated that unemployment at 2.53M people reached a 17 year high, representing an unemployment rate of 8.0%.
- The ONS revised its fourth quarter 2010 GDP growth rate to -0.6% from -0.5% due to poor weather.
- On 9th February, the ONS announced the largest deficit in trade in goods in history. The net deficit widened to £9.2B in December (November £8.5B).
- The British Retail Consortium's monthly survey for March showed that sales fell by 1.9% p.a., the worst drop since 1995.

USA

Positive Influences

- Payrolls rose by 216,000 in March and unemployment eased to 8.8% form 8.9% in February.
- Consumer spending, which accounts for approximately 70% of the US economy, rose 0.7% in February according to the Bureaux of Economic Analysis. This compared with January's rise of 0.3%.
- The Commerce Department stated that GDP for the fourth quarter of 2010 rose 3.1% versus an earlier estimate of 2.8%.
- The Philadelphia Federal Reserve Board's business activity index experienced its best monthly reading since 1984 for March of 43.4, higher than the 36.1 in February and also the consensus estimate of 28.8.
- On 15th March the Federal Reserve Board held interest rates in the range 0 – ¼%.
- Oil output in 2010 was at its highest level since 2002.
- The Institute of Supply Management's (ISM) index of manufacturing activity increased to 61.4 in February, up from 60.8 in January.
- Surprisingly, the National Association of Realtors stated that home resales in January increased by 2.1% compared with a consensus estimate for a decline of 5.3%.
- With regard to jobs, on 9th February Bernanke stated "a notable decline in the unemployment rate in December and January together with an improvement indicated in job openings and firmer hiring plans do provide some ground for optimism on the employment front".

Negative Influences

- The ISM's non manufacturing index retreated to 57.7 in March from February's 59.7.
- The Department of Agriculture announced that farm commodities, such as corn and soybeans rose sharply. This was caused by the Government stating that national inventories were much lower than expected which evoked a degree of

panic buying. The Department added that food inflation would surge in the second half of 2011.

- The Commerce Department reported that orders for manufactured goods fell by 0.1% in February compared with the rise of 3.3% in January.
- Home prices in March fell for the seventh consecutive month.
- The consumer sentiment index dropped to 67.5 in March, down from 77.5 in February.
- New home sales collapsed by 16.9% p.a. in February and new home construction fell by 20.8% p.a., the biggest drop since 1984 and compared with the January rise of 14.6%.
- A fifth of the US population now qualifies for food stamps, the highest level in the 50 year history of the programme.
- The University of Michigan's index of consumer confidence showed a large fall to 68.2 in March from 77.5 in February.
- The index of consumer confidence in March decreased to 63.4 from February's 72.0 which was a three year high.
- In Bernanke's six monthly monetary policy report to Congress he said "sustained rises in the price of oil and other commodities would represent a threat both to economic growth and overall price stability, particularly if they were to cause inflation expectations to become less well anchored".
- Retail sales in January increased 0.3% versus an estimate for a rise of 0.6% and December's figure of +0.5%. This was partly blamed on adverse weather.

Europe

Positive Influences

- Sweden's economy grew by a record 7.3% in the fourth quarter of 2010 representing Europe's strongest rate of economic growth.
- In Ireland's election the Fine Gail party convincingly beat Fianna Fail.
- Germany's February exports grew by a much better than expected 2.7%.

Negative Influences

- Eurozone consumer prices rose to 2.6% p.a. in March from 2.4% p.a. in February. The European Commission estimates that Eurozone inflation will average 2.2% in 2011.
- Eurostat reported that Eurozone GDP advanced a meagre 0.3% in the fourth quarter of 2010 which was unchanged from the previous quarter.
- German industrial orders for February increased by 2.45 (January +3.1%).
- Germany's IFO business confidence index slipped to 111.1 in March from 111.3 in February.
- German inflation grew by 2.2% p.a. in February (January +2.0% p.a.).
- Nicolas Sarkozy's UMP party lost popularity in France's Local Elections.
- After further stress tests four leading trust banks admitted that they needed a further incredulous €24B, pushing the total cost of their rescue to €62B.
- The resignation of the Portuguese Prime Minister, Jose Socrates of the Socialist Party, adds to the political chaos in the country and further increases the likelihood that Portugal will have to resort to the European Financial Stability Facility for a bail out package.

- On 16th March Portugal's debt was further down graded by both the rating agencies Moodys and also Standard & Poors. On 10th March Spain's credit rating was down graded by Moodys to AA2.
- On 3rd March the European Central Bank held interest rates at 1.0%, but signalled that rates could rise in April.

Japan

Positive Influences

- In a statement, the minister for economic and fiscal policy attempted to play down the economic damage to Japan stating that the most affected areas only accounted for some 4.0% of the nation's GDP. He added that the necessary substantial spending on reconstruction would be beneficial to the economy.

Negative Influences

- It goes without saying that the news that transcended all other events was the tragic earthquake on 11th March which triggered the devastating tsunami which so damaged the six nuclear reactors at the Fukushima Daiichi power plant and threatened a nuclear meltdown, thus markedly reducing the nation's electricity supply. The Nikkei index lost a sixth in 2 days with the shares of Tokyo Electric Power Company, the plant's operating company, collapsing by 23.5%.
- Apart from the humanitarian crisis and its accompanying homelessness many of the affected areas of Japan suffered from acute dislocation. A direct consequence of this was disruption in the supply chain both amongst Japanese corporations and those global manufacturers that were reliant on the import of components and spare parts from Japan i.e. international motor companies and also technology companies. Global luxury goods exporters to Japan are also suffering as are insurance and re-insurance companies. Understandably, there are substantial fears for contamination of both domestic and sea water and also certain foods especially vegetables and fish.
- Although the economy grew by 3.9% in 2010, the rate of GDP in the fourth quarter of the year shrank by 0.3%. If economic growth continues to slow, Japan's debt to GDP ratio will become even more extreme.
- The purchasing managers' index for March sank to 46.4 from 52.9 in February. This was a two year low.
- Public support for the prime minister Neoto Kan and his administration hit a fresh low.

Asia/Pacific

Positive Influences

- India's purchasing managers' index for March was unchanged.
- On 10th March the Reserve Bank of New Zealand cut interest rates by ½% to 2 ½% stating that the move was aimed at "pre-emptively reducing the economic impact of the recent earthquake".
- China announced that it intends to build 45 airports over the next 5 years increasing the total number to 220.
- China's March exports grew by a prodigious 35.8%.

- China's purchasing managers' index for March rose to 53.4 from 52.2 in February.
- Allegedly China displaced Japan in 2010 as the world's second largest economy.
- The Chinese Development Bank is in talks to build an alternative transport system to the Panama Canal that would link the Columbian Atlantic and Pacific coasts by a 220km railway.
- On 8th February, the People's Bank of China, in order to tackle inflation, raised its one year deposit rate by ¼% to 3.0% and its one year loan rate by ¼% to 6.0%, representing the third rise since mid October 2010.

Negative Influences

- China announced it had suspended approval for new nuclear power plants.
- China's trade balance for February changed from a surplus to a deficit of $7.3B due in part to the high cost of imported commodities.
- China's rate of CPI inflation rose to 4.9% p.a. in January from 4.6% p.a. in December.
- On 10th March, the Bank of Korea raised interest rates by ¼% to 3.0% in order to pre-empt rising rates of inflation.

Conclusion

The principal regional influences that will likely drive the direction of stock markets in 2011 are as follows:-

In the UK

- There is no doubt that the continuing austerity measures imposed upon the British population are proving a severe test of the coalition government's metal as it strives to decrease the appalling indebtedness of the nation. History suggests that newly elected governments suffer unpopularity in their early years with poor results likely in Local Elections.

In the USA

- President Obama will need, as a matter of urgency, to knock Democratic and Republican heads together to break the impasse over state finances and avoid a government shutdown. The Tea Party's political momentum appears to be less of a force which could ultimately improve Obama's chances of achieving a second term in office. Indeed, a compromise with the Republican party might well work in his favour. From an investment perspective, there are clear signs in the market place that, against a background of such global tumult, the USA is seen as a sanctuary.

In Europe

- In the short term much will depend on the efforts and collusion of the ECB and Germany as they strive to buttress the lower tier Eurozone members and hold the Eurozone together. It will be imperative that the contagion does not spread from Greece, Ireland and Portugal to Spain due to the size and relevant importance of that economy. Despite the current doomsayers and the effects of speculation, it does appear that Spain will be able to remain solvent.

In Japan

- It may very well prove that the determination, resilience and technological skills of the Japanese population will help them to recover. It may also be that the massive building and construction spending programmes will be a stimulus to the economy and provide the shot of adrenalin needed to resuscitate it and also the political dynamism so sadly lacking in the past administrations with their seeming lack of ability to extract the nation from the deflationary mire of some 10 years.

In Asia/Pacific

- The actions of China will of course continue to dominate the region and its massive imports will be a boost to its neighbouring nations. It seems likely that the Peoples' Bank of China will continue with its programme of raising interest rates in an attempt to curb inflation. The Bank is also showing signs of becoming more transparent.

The alternative asset classes of GTAA, Foreign Exchange, Hedge Fund of Funds and Commodities (particularly gold) should all benefit from the current volatility and lack of correlation in the market place together with an improvement in overall liquidity. Although these asset classes should be able to take advantage of current attractive opportunities and, in the longer term reduce portfolio risk, the shorter term caveat must be that performance will be erratic and subject, in certain cases, to market speculation (especially in foreign exchange). Property, private equity and infrastructure should also continue to make worthwhile progress and, most importantly, to produce a consistently rising real return. At this time each of these three asset classes have an abundance of attractive opportunities from which to take advantage. Private equity should also benefit from an increasing number of new issues and a healthy and more liquid secondary market.

In sum, its seems plausible to suggest that, with forecasts of adequate world economic growth (the IMF estimates GDP of 4.4% for 2011), equities both in the UK and globally will, between now and the end of the year, outperform fixed interest and achieve increases for the calendar year as a whole of , say 7 to 9%. Supportive factors for equities should continue to be the raising of substantial funds through IPOs, especially in the USA and a surge in CAPEX together with earnings and dividends increasing faster than inflation. The IMF added "the recovery has become more self sustaining, risks of a double-dip recession in advanced economies have receded, and global activity seems set to accelerate again". The outlook for traditional fixed interest stocks will most likely remain clouded by interest rate increases both expected and actual. However, the derivative and absolute return products of a fixed interest portfolio should serve to enhance overall return. This is a theme which is becoming increasingly popular with fixed interest investors.

As mentioned in past quarterly reports, the long term performance of pension funds appears likely to become increasingly reliant upon a high degree of globalisation (to include emerging market equities and debt) amongst all of its asset classes. In that regard it is a bonus that some 65% of FTSE 100 company earnings and asset ownership is estimated to be international. Of increasing importance will be adequate investment in minerals and energy sources; be it in oil, liquefied natural gas and coal.

This does not assume that nuclear reactors will become extinct, but simply that the new ones will have to be constructed to much higher safety standards than heretofore.

12th April 2011

Investment Update for the Month of April 2011

The index returns and exchange rate movements for the month of April are shown in the tables below.

	Indices	**Month ended 30th April 2011**
		%
Equities		
Europe	FTSE Developed Europe (ex UK)	4.4
UK	FTSE All Share	3.1
Asia/Pacific	FTSE Developed Asia Pacific (ex Japan)	1.4
Emerging Markets	MSCI Emerging Markets Free	-0.9
North America	FTSE North America	-1.2
Japan	FTSE Developed Japan	-3.5
Fixed Interest		
Corporate Bonds	Merrill Lynch Sterling – Non Gilts All Stocks	2.1
UK ILGs	FTSE British Government IL Over 5 years	2.1
UK Gilts	FTSE British Government All Stocks	1.9
Property	IPD	N/a
Cash	Merrill Lynch LIBOR 3 Month	0.1

Currency movements for month ended 30th April 2011

Currency	31st March 2011	30th April 2011	Change %
USD/GBP	1.603	1.668	+4.1
EUR/GBP	1.130	1.124	-0.5
USD/EUR	1.419	1.484	+4.5
YEN/USD	82.880	81.140	-2.1

With quite so many economic concerns in the UK, the USA and parts of the Eurozone it is not surprising that market returns for the month of April were subdued by comparison with the quarter ended 31st March 2011. Understandably Japan was the worst performer (-3.5%) as it struggled to cope with the aftermath of its natural disasters. North America (-1.2%) reflected, above all else, the political problems in agreeing a solution to the massive deficit. The Emerging Market return was a negative 0.9% as investors appeared to seek more risk free alternative markets in uncertain times. On the plus side, the return from Europe was a most worthwhile +4.4% on the general assumption that the Eurozone was at last on the way to solving the problems of its peripheral member countries and that the Euro would remain intact. The UK return (+3.1%) should be seen in a particularly resilient light in view of the austerity programme and political bickering ahead of the local elections. Asia/Pacific managed a +1.4% return as it continued to be perceived, in general, as an area of superlative economic growth, especially in the longer term.

All three fixed interest sub sectors produced very acceptable positive returns around the 2.0% mark. There was evidence during the month that worried and more risk averse investors had sort the perceived safe haven of this asset class.

Property continued its steady improvement (+0.9%). Although this was admittedly for March as the IPD property index is not yet available for April. Although there is no reason to believe that the even tenor of the recovery will not be maintained.

The factors of a general nature to influence the course of stock markets during the month were as follows:-

- Certain minerals continued to strengthen with gold reaching a record $1,569 on 29th April. Earlier in the month silver rose to $46.76, its highest level since 1980, representing a 64% rise since 1st February. The higher the rises in these two markets the greater the apprehension that a bubble might be emerging.
- Currency markets were extremely volatile, as evidenced on 20th April with the US dollar falling to its lowest level for 16 years against a basket of currencies.
- Certain North African and Middle Eastern countries continued to give cause for great international concern.
- The global purchasing managers' index receded to 55.8 in March from 57.4 in February. Part of this fall was blamed on trade disruption caused by the disasters within Japan.
- As time goes by the market regulators are quite rightly coming in for more and more criticism for their lack of action and involvement, particularly during and after the post sub prime financial crisis. There seems little doubt that in the future regulators will have to become much more transparent and overt within their operations.

During April the principal events and macro economic data within the regions were as follows:-

UK

- The coalition government was preoccupied with the forthcoming referendum on alternative voting. In this regard it was the press and other commentators who attempted to fan the flames of dissent and rift. The government continued along its arduous course of applying harsh remedial medicine to the economy. These measures are gradually being accepted by the electorate as it is realised that there really is no alternative if the appalling deficit is to be reduced and the economy improved.
- The manufacturing sector purchasing managers' index reduced to 54.6 in April down from 56.7 in March. This compares with a record level in January of 61.7.
- The Treasury increased its supplementary tax on North Sea oil and gas products from 20% to 32%. This tax rise may well have to be revisited.
- The Office for National Statistics reported that the rate of GDP for the first quarter of the year was up 0.5% which merely negates the negative figure for the previous quarter. This disappointing figure was blamed both on the high cost of energy together with bad weather conditions.
- High yield bond issuance has increased sharply as companies seek to refinance their levels of debt.
- In the first quarter of 2011 company dividends are estimated to have risen by a heartening 10% p.a.
- In the 3 months to February the unemployment figure reduced by 17,000 to 2.48M with the jobless rate inching back to 7.8% from the previous quarter's 7.9%.

- On 12th April sterling fell to its lowest rate against the euro for 6 months.
- In March the Consumer Price Index fell to 4.0% from 4.4% in February, still double the Bank of England's target.
- Sir John Vickers, acting for the Independent Commission on Banking, stated that his principal theme is to ring fence UK banking operations and to compel banks to hold more capital.

USA

- The Standard & Poors rating agency issuance of a clear signal that it might have to down grade America's triple A status acted as a severe jolt to the impasse between the Democrats and the Republicans as they have striven without much success to agree the vital budget measures so urgently needed to reduce the unacceptably high deficit and to inject the economy with a sufficient amount of adrenalin in order to shock it into a meaningful recovery. A feature of the month was the weakness of the US dollar and the increasing suspicion that the White House together with the Federal Reserve might have a hidden agenda to maintain a weak dollar to better boost exports and trade in general.
- The Institute for Supply Management's index of manufacturing activity decreased to 60.4 in April from 61.2 in March.
- The "Rust Belt" states have experienced the largest gain in manufacturing jobs as industrial activity recovers.
- On 28th April, as expected the Federal Reserve Board (FED) held interest rates. As a result of the FED's continuance with its easy money policy it is unsurprising that this stance has severely weakened the dollar. On 29th April, Bernanke at the FED said that it was intended to hold interest rates close to zero "for an extended period". Bernanke also confirmed that the second programme of quantitative easing would be completed.
- The status of the US dollar as the world reserve currency is being impacted by the increased standing of China's renminbi currency.
- On 28th April it was announced that the rate of GDP grew by 1.8% p.a. in the first quarter of 2011 compared with a rise of 3.1% p.a. in the previous quarter. This disappointing result was blamed on high energy prices, adverse weather and a drop in private sector spending.
- The Commerce Department reported that new orders for durable goods advanced by 2.5% in March (February +0.7%). This was much better than expected.
- As mentioned, the Standard & Poors rating agency reduced its outlook on US Sovereign Debt for the first time. The agency kept the credit rating at AAA, but cut the outlook from stable to negative. A negative definition equates to a one third chance of a downgrade in the next two years. This could further damage the US dollar's standing as a global reserve currency.
- Retail sales increased by 0.4% in March representing the ninth consecutive increase. This increase was nevertheless considered to be weaker than expected.

Europe

- On 7th April the European Central Bank, under the leadership of Jean Claude Trichet, raised interest rates by ¼% to 1 ¼% and indicated that further increases might follow. This is a clear attempt to pre-empt inflation. This was no surprise as the rise had been widely signalled. The Bank stated that acting against inflation was "in the interests of all members and partners of the single European market and single currency". It also stated that the increase would help boost economic confidence. The economic state of Ireland, Portugal and Greece continued to be dire with all of them sucking in more financial aid, thanks to the continuing efforts of the ECB and the International Monetary Fund. In the longer run, it does appear inevitable that the Eurozone is likely to have a two tier system, but still retaining the Euro. At this time it does appear that Spain and Italy have financial problems, but they cannot be compared with the aforementioned triumvirate of disaster economies.

- The Spanish rate of unemployment in the first quarter of the year was 21.3% of the population (previous quarter 20.3%).
- The German Federal Labour Office reported that the number of unemployed people dropped by 37,000 to 2.97M in April.
- Glencore, a Swiss based corporation, and the world's largest commodity trader, is soon to float valuing the company at some $60B.
- The Eurozone's headline inflation rate for March was revised up to a two year high of 2.7%.
- Throughout April, it became increasingly apparent that Portugal needed an international rescue to avoid a sovereign bond default.
- The Eurozone's purchasing managers' index for March receded to 57.5 from 59.0 in February.

Japan

- There are signs that the economy and the country as a whole are gradually making a recovery from the devastating earthquake and tsunami. The resilience and determination of this nation is to be admired as it struggles to restore vital industrial supply lines for exports round the word e.g. for car components and electronics.
- On 28th April, as expected, the Bank of Japan held interest rates.
- The Government's production survey for April and May expects manufacturing output to increase by 3.9% and 2.7% respectively.
- Factory output fell by 15.3% in March, the biggest fall since records began in 1953. Household spending fell 8.5% due, in part, to Japan's natural disasters.
- The Bank of Japan said "the economic outlook greatly depends on when and what pace the various supply side constraints, including power shortages, are resolved.
- Tokyo Electric Power Company (TEPCO), the operating company of the Fukushima nuclear complex, estimates that the crisis could take 9 months to resolve. TEPCO supplies 29% of Japan's electricity to more than two million businesses and twenty-six million households in the Tokyo metropolitan area. The government's economic minister warned that the impact of the earthquake and the tsunami could be worse than had been initially thought. The Japanese global supply disruption caused Toyota and Ford to shut various plants. On 12th April the Japanese nuclear authority raised the severity of the Fukushima disaster to the highest level of 7.

Asia/Pacific

- China continued its programme of increasing interest rates in order to battle inflation. China has also increased its global influences both in regard to its holding of foreign reserves and deals that it effects for increasing its access to vital energy and mineral resources. The economy benefits both its regional neighbour economies and those further afield by its vast appetite for foreign goods. For instance vehicle manufacturing and cosmetic companies. China's booming middle classes act as a magnet to foreign suppliers of high quality goods and services.

- Headline inflation in India rose to 8.9% in March (February 8.3%).
- Chinese consumer prices increased by 5.4% p.a. in March.
- On 4th April, the People's Bank of China raised its benchmark one year lending rate by ¼% to 6.31% and its deposit rate to 3.25%. These were the fourth rises in 5 months.

Emerging Markets

- It is becoming apparent that whilst the BRIC economies (Brazil, Russia, India and China) are growing at a much faster rate than their counterpart economies in the Western Hemisphere, the CIVETS (Columbia, Indonesia, Vietnam, Egypt, Turkey and South Africa) economies are generally growing faster still.

Conclusion

So, whither the equity markets between now and the end of 2011? Most likely they will wax and wane according to the general perception of interest rate and inflation directions. With regard to the former it seems likely that, in the UK and USA interest rates, will remain at their current very low levels for longer than was generally anticipated only a relatively short while ago. Earlier in the year, the ECB signalled more incremental rises of ¼%. However, more recently, the bank has become more cautious and for the near future appears to have postponed interest rises to the late summer. Further afield, interest rates are likely to increase especially in China, Australia and other Asian nations. It should not be forgotten that both institutional and private investors still have relatively high levels of low yielding cash which are likely to be committed to further purchases of attractively priced high yielding equities and also corporate bonds.

With the caveat of the worrisome deficit resolutions in the UK, USA and peripheral Eurozone countries and the proviso that overall world economic growth levels do not deteriorate, then it seems reasonable to assume that the principal opinions contained in the investment report for the quarter ended 31st March 2011 still hold good. That is to say, in most regions, equities should achieve single digit returns for the year whilst outperforming fixed interest markets for which the outlook remains relatively lacklustre. If this general forecast does not materialise it will most likely be because global economic growth falters, particularly in the Western Hemisphere or that inflation rises are worse than forecast. Broad and large, the estimates for the other asset classes also remain relatively unchanged since a month ago. Currently the financial media are suggesting that a bubble is emerging in commodities. Granted they are expressing a severe short term speculative downdraught, but the long term attractions for this asset class are still in place, particularly in the case of hard commodities with finite reserves.

Valentine Furniss
11th May 2011

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	Pension Fund Sub Committee 28th June 2010 **Report from the Director of Finance and Corporate Services**
For Action	Wards Affected: ALL
Report Title:	**BUSINESS AND TRAINING PLANS FOR 2010/11, AND BUSINESS PLANS TO 2012/14**

1. SUMMARY

The plans outline the planned activities of the Pension Fund Sub Committee for the year to February 2012, and the three years to February 2014.

2. RECOMMENDATIONS

Members are asked to comment on and agree the plans, and raise any training issues that require further consideration.

3 DETAIL

Background

3.1 The Myners Report on UK Institutional Investment recommended that trustees prepare a forward-looking business plan. The Sub Committee has prepared a detailed annual plan since 1999. It is suggested that a three year strategic plan will enable long-term issues, such as asset allocation reviews and the Actuarial Valuation, to be included. The review of progress with implementing the Myners' report identified that trustee learning and development was a priority, and that the Chair of the Board of Trustees had a role in ensuring that trustees were fully trained.

3.2 Members discussed learning and development at their meeting on 3rd March 2009, and knowledge and skills on 29th June 2010. It was agreed that there would be a combination of occasional afternoon two hour seminars, additional training sessions to be held in the evening and the inclusion of a designated training item on the agenda of sub committee meetings. To date there have been training sessions on the Actuarial Valuation, Fixed Interest investment, Investment Management fees and Private Equity. A separate paper on member and officer skills is also on the agenda.

Business Plan 2010/11

3.3 The Business Plan for 2009/10 has been delivered with the exception of

a) There have not been any issues on pension fund administration.
b) Review of Additional Voluntary Contribution (AVC arrangements). This has been put back to 2011.

Additional items of business covered by the Sub Committee included additional investment in private equity (the Solar Fund), consideration of the Global Equities mandate and appointment of an Emerging Markets manager, a proposal by Fauchier Partners to join a distressed debt fund, and consideration of Socially Responsible Investment.

Business Plan 2011/12

3.4 The Business Plan covers both regular and other reports / work areas that are anticipated during the year. The programme will be amended frequently in the light of new developments. The Plan is as follows:-

Periodic Reports	
Quarterly Monitoring Report on Managers' Activities, Performance and Future Strategy.	Each quarter
Annual Performance for the Fund – WM visit	September
Annual Report and Accounts Review of the Statement of Investment Principles	June/ Sept. February
Issues	
Member and officer skills Asset Allocation for the Fund – consideration of progress and options Review of Additional Voluntary Contribution arrangements Issues related to the Actuarial Valuation – including revised Funding Strategy Statement Review of the actuary Administrative issues relating to the Fund Revised regulations issued by the Department for Communities and Local Government	June September June February November As they arise As they arise
Training	
Induction training and regular briefings through emails and letters – Head of Investment	*Ongoing*
Conferences and seminars organised by the National Association of Pension Fund, WM and LGC. These are important for basic training and to develop understanding of new investment opportunities.	As they arise

Fauchier Partners – Investment in Hedge Funds WM – Performance measurement Legal & General – passive investment Alinda – Investment in Infrastructure Individual training items	June September November February Ongoing

Regular quarterly items

Report on investment activity for the whole fund.

Managers' reports. Legal & General Investment Management (LGIM), Fauchier Partners, Henderson Global Investors and the Brent In-house manager will issue reports for each meeting. LGIM and Henderson will usually alternate at sub committee meetings, allowing other managers to attend on an annual basis. Managers will be asked to restrict presentations to 20 minutes, with 20 minutes for members' questions. This will leave time for other business and training items. The Head of Exchequer and Investment and the Independent Adviser will meet with all managers on a regular basis to enable them to answer questions arising if the manager is not present.

Business Plan 2011/14

3.5 The first year of the plan will be as set out in paragraph 3.4 above. For the other two years, the periodic reports will continue. However, other issues should also be considered, as follows:-

2012/13

Consideration of new investment opportunities
Review of the Independent Adviser

2013/14

Consideration of new investment opportunities

3.6 It is anticipated that other issues will arise over the three-year period. The plan will give a framework to ensure that long-term issues are considered.

4. FINANCIAL IMPLICATIONS

4.1 There are no financial implications arising directly from the plans.

5 DIVERSITY IMPLICATIONS

5.1 The proposals in this report have been subject to screening and officers believe that there are no diversity implications arising from it.

6 STAFFING IMPLICATIONS

6.1 None

7 LEGAL IMPLICATIONS

7.1 There are no legal implications arising from the plans.

8 BACKGROUND

8.1 Previous work programmes for the Sub-Committee.

9. CONTACT OFFICERS

9.1 Persons wishing to discuss the above should contact the Exchequer and Investment Section, Brent Financial Services, on 020 8937 1472/74 at Brent Town Hall.

CLIVE HEAPHY
Director of Finance and Corporate Services

MARTIN SPRIGGS
Head of Exchequer and Investment

	Pension Fund Sub Committee 28th June 2011 **Report from the Director of Finance and Corporate Resources**
For Action	Wards Affected: ALL
Report Title:	**PENSION FUND ACCOUNTS 2010/11**

1. SUMMARY

1.1 This report introduces the final Pension Fund accounts for 2010/11.

2. RECOMMENDATIONS

2.1 Members are asked to note the accounts.

3 DETAIL

3.1 The Department for Communities and Local Government (DCLG) introduced regulations in June 2007 requiring each local government pension fund to produce a separate annual report and accounts. The new regulations required local authorities to include various items within the accounts, such as the Statement of Investment Principles and a statement by the actuary on the level of funding – these will be included in the final report. The accounts have been prepared on the basis of International Financial Reporting Standards (IFRS) for the first time, which has led to some presentational changes and a change to the calculation of employer contributions (see details below). A Governance Statement for the Fund, largely based on that prepared by the Council, is attached as Appendix 1.

3.2 The draft 2010/11 Accounts will be circulated at the Sub Committee meeting. The main items to note are as follows:-

a) The value of contributions to the Fund appears to have risen in 2010/11, but the comparison is distorted by the IFRS requirement to include pension strain payments (payments to the Fund made by employers over three years to offset the costs of early retirements) of £1,758,000. Excluding pension strain payments, contributions would have fallen by around £800,000, reflecting the large redundancy programmes initiated by employers. Pay freezes and declining staff numbers may reduce the value of contributions in future years, though increases in both employer and employee rates may offset such falls.

b) The value of benefits payable – both pensions and lump sums - has risen sharply (by £4.6m) in 2010/11. In particular, the value of lump sums paid has risen (£3.7m). Staff reductions in 2011/12 are likely to continue this trend.

c) Overall, the accounts for 2010/11 indicate a surplus in 2010/11 of £36.7m., analysed as follows:-

Surplus of contributions over benefits	£4.7m
Investment management costs	(£1.5m)
Investment income	£12.0m
Change in market value of investments	£21.5m

d) On the basis of a) and b) above, additional cash balances into the fund for investment are may be reduced in future years. However, there is likely to continue to be a surplus of income (contributions and investment income) over expenditure on benefits that will support increased exposure to asset classes that have future commitments, such as private equity and infrastructure. However, if rising employee pension fund contribution rates reduce the active membership in the Fund, investment strategy may need to be reviewed.

e) FRS17 statements for employers show that accounting deficits have been reduced. This is mainly because from 2010, inflation will be calculated on the basis of Consumer Price Inflation (CPI), rather than Retail Price Inflation (RPI). Historically, CPI has been lower than RPI by around 0.7% per annum.

4. FINANCIAL IMPLICATIONS

These are set out within the report.

5 DIVERSITY IMPLICATIONS

The proposals in this report have been subject to screening and officers believe that there are no diversity implications arising from it.

6 STAFFING IMPLICATIONS

None

7 LEGAL IMPLICATIONS

There are no legal implications arising from the accounts.

8 BACKGROUND

Pension Fund Sub Committee – Report and accounts for 2009/10 – June 29th 2010

Persons wishing to discuss the above should contact the Exchequer and Investment Section, Brent Financial Services, on 020 8937 1472/74 at Brent Town Hall.

CLIVE HEAPHY
Director of Finance and Corporate Services

MARTIN SPRIGGS
Head of Exchequer and Investment

APPENDIX 1

BRENT PENSION FUND
ANNUAL GOVERNANCE STATEMENT
2010/11

Scope of responsibility

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The Council delegates responsibility for managing the Pension Fund to the Pension Fund Sub Committee, which reports to the General Purposes Committee of the Council.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is contained in the council's Constitution and can be found on our website at http://www.brent.gov.uk/Democracy.nsf/.

This statement explains how the Council, as administering authority for the Pension Fund, has complied with the code and also meets requirements in relation to the publication of a statement on internal control. It focuses on the issues of internal control, whereas the statement contained in the main accounts for the Council is more concerned with the wider issues of governance for the whole authority.

The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the pension fund is directed and controlled and accounts to stakeholders.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework

The key elements of the systems and processes that comprise the Council's governance arrangements are set out over the following pages against the six core principles upon which the CIPFA/SOLACE Framework is based. The six core principles, adapted for the Pension Fund, being as follows:

1. Focusing on the purpose of the administering authority and on outcomes for stakeholders;
2. Members and officers working together to achieve a common purpose with clearly defined functions and roles;
3. Promoting values of the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
5. Developing the capacity and capability of members and officers to be effective; and
6. Engaging with stakeholders to ensure robust public accountability.

Each of these core principles are broken down into a number of supporting principles and these will be used by the administering authority on an annual basis to review the overall governance framework, as well as to identify specific actions needed to address any weaknesses and/or to achieve further improvement in the year ahead.

CORE PRINCIPLE 1 - Focusing on the purpose of the administering authority and on outcomes for stakeholders		
The local code should reflect the requirements for administering authorities to:	**Position at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
1. Develop the administering authority's purpose and vision	The Pension Fund Sub Committee has agreed the following policies to set out its aims and practices: a) The Statement of Investment Principles, which sets out how the fund is managed and administered. b) The Funding Strategy Statement, which sets out how the Fund will meet its liabilities. c) The Fund governance statement, which sets out the membership of the Pension Fund Sub Committee and how it works. d) The Communication Strategy, which sets out how Pension Fund issues are communicated to members via the website and regular newsletters. Employers are contacted by letters and email.	Ensure that communication is regular (M.Spriggs / A.Gray)
2. Review policies on a regular basis	The Statement of Investment Principles is reviewed on an annual basis. Other statements are reviewed as necessary.	
3. Publish an annual report on a timely basis to communicate the fund's activities and achievements, its financial position and performance.	A review of performance and summary of accounts is produced annually.	
4. Decide how the quality of service for users is to be measured and make sure that	The Annual Report contains details about service standards and achievement of standards.	

CORE PRINCIPLE 1 - Focusing on the purpose of the administering authority and on outcomes for stakeholders		
The local code should reflect the requirements for administering authorities to:	**Position at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
the information needed to review service quality effectively and regularly is available.		
5. Put in place effective arrangements to identify and deal with failure in service delivery.	Potential service failure is identified through the monthly review of service with the Fund's administrator, the London Pension Fund Authority (LPFA). An action plan, with timescales, is agreed with the LPFA.	

CORE PRINCIPLE 2 - Members and officers working together to achieve a common purpose with clearly defined functions and roles		
The local code should reflect the requirements for administering authorities to:	**Position at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
1. Set out a clear statement of respective roles and responsibilities of members and officers.	Article 2 of the Constitution describes the role of Members of the Council, the Executive, Mayor, Full Council and overview and Scrutiny. Up to date job descriptions are in place for Senior Officers. Monitoring Officer Advice Notes give advice to Members on decision making and standards of conduct. Local Democracy and Standards WebPages are updated regularly.	

CORE PRINCIPLE 2 - Members and officers working together to achieve a common purpose with clearly defined functions and roles		
The local code should reflect the requirements for administering authorities to:	**Position at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
	All non-confidential reports and minutes are now on the Internet. The Statement of Investment Principles sets out the different roles of members, officers, managers, the Independent Adviser and the Actuary.	
2. Set out a clear statement of the respective roles and responsibilities of other authority members, members generally and of senior officers.	Roles and responsibilities are covered in the Constitution. Draft job descriptions were not formally adopted by Members however these are now to be reviewed by Constitutional Working Group (CWG). Up to date job descriptions are in place for Senior Officers.	
3. Determine a scheme of delegation and reserve powers within the Constitution.	Clearly set out in the Constitution. The Legislation Tracker shows which CMT member is responsible for implementation of emerging legislation. The Borough Solicitor maintains a register of officer authorisations. The Constitution is renewed and reported to full Council every May.	
4. Make a chief executive or equivalent responsible and accountable to the authority for all aspects of operational management.	Covered in the Constitution and job descriptions.	

CORE PRINCIPLE 2 - Members and officers working together to achieve a common purpose with clearly defined functions and roles		
The local code should reflect the requirements for administering authorities to:	**Position at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
5. Make a senior officer (usually the section 151 officer) responsible to the authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control.	Covered in the Constitution and job description. Covered by statute and Financial Regulations. All reports have to be cleared by the Director of Finance & Corporate Resources. Director attends all Leader's briefings and meetings of the Executive and full Council.	
6. Make a senior officer (other than the Responsible Financial Officer) responsible to the authority for ensuring that agreed procedures are followed and that all applicable statutes, regulations are complied with.	Covered in the Constitution and job descriptions. Covered by statute and Financial Regulations. All reports have to be cleared by the Borough Solicitor who attends all Leader's briefings and meetings of the Executive and full Council. A lawyer also attends all other committee meetings and is responsible for issuing the legislation tracker, monitoring officer advice notes and legal bulletins.	

CORE PRINCIPLE 3 - Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour		
The local code should reflect the requirements for local authorities to:	**Position as at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
1. Ensure that the authority's leadership sets a tone for the organisation by creating a climate of openness, support and respect.	The Member Code of Conduct includes the 10 general principles of conduct, including respect for others, leadership and stewardship. The Constitution contains the Planning Code of Practice, Licensing Code of Practice, Code of Practice on Publicity and the protocol for Member Officer Relations. Members and Chief Officers work collaboratively on the Policy Coordination Group, Leader's Briefing, Service Planning and Budget Awaydays.	Ongoing training and support offered to members. Regular meetings undertaken with senior officers. (Member Development Manager)
2. Ensure that standards of conduct and personal behaviour expected of members and staff, of work between members and staff and between the authority, its partners and the community are defined and communicated through codes of conduct and protocols.	The current Code of Conduct for Officers was agreed in 2005. Other codes, including the IT Usage Policy and Harassment Policy are all held on the intranet. Staff are made aware of their responsibilities through general communications, such as the Chief Executive Newsletter, Insight Magazine and via attachments to payslips, as well as at team briefings. The Improving Brent Programme sets out the requirement for having the highest standards of ethical behaviour across the organisation. New Anti-Fraud Framework, replacing the earlier 2003 framework, was publicised and issued in February 2008. Work is ongoing on raising staff and member awareness through training presentations. The Brent Member Code of Conduct reflects the model code published by the government, having been reviewed and	

CORE PRINCIPLE 3 - Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour		
The local code should reflect the requirements for local authorities to:	**Position as at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
	amended in September 2007.	
3. Put in place arrangements to ensure that members and employees of the authority are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and put in place appropriate processes to ensure that they continue to operate in practice.	Review of Members' and officers' gifts and hospitality completed and reported to Standards Committee and Director of HR. The Constitution contains various other codes including: Licensing, Planning, Member Officer Relations. Advice notes are issued by the Borough Solicitor regarding conduct. The registers of Members' interests and Members' gifts and hospitality are now placed on the web site enabling easy public access.	
4. Develop and maintain shared values including leadership values both for the organisation and staff reflecting public expectations and communicate these with members, staff, the community and partners.	The Member Code of Conduct includes reference to Leadership and Stewardship and other values. A new Code of Conduct and competency framework has been developed for managers and staff together with a management charter which all set out the expected behaviours for officers, including Leadership and working with others.	
5. Put in place arrangements to ensure that procedures and operations are designed in	Standards of conduct for Members are set out in the Constitution. Protocol for Member/officer relations is set out in Constitution.	

CORE PRINCIPLE 3 - Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour		
The local code should reflect the requirements for local authorities to:	**Position as at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
conformity with appropriate ethical standards, and monitor their continuing effectiveness in practice.	Standards Committee has remit to monitor compliance.	

CORE PRINCIPLE 4 - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk Taking informed and transparent decisions which are subject to effective scrutiny and managing risk		
The local code should reflect the requirements for local authorities to:	**Position at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
1. Develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based.	Decision making arrangements are set out in the Constitution. The Council operates a Leader and Cabinet (Executive) model of decision making. In the case of the pension fund, all decisions are made by the Pension Fund Sub Committee. There are currently no decision making powers delegated to individual Members. In accordance with the Local government Act 2000, the Council has mechanisms in place to allow the effective, independent and rigorous examination of the proposals and decisions by the Executive. These mechanisms involve the Overview and Scrutiny process including call-in and question time. The conduct of the Council’s business is governed by the Constitution, which includes Standing Orders and Financial Regulations.	

CORE PRINCIPLE 4 - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

The local code should reflect the requirements for local authorities to:	**Position at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
	Decision making meetings of the Pension Fund Sub Committee are open to the public. Copies of reports and decisions are available on the intranet and through the One Stop Shop and Libraries. All meetings are clerked by well trained and experienced committee support officers and lawyers are present to provide advice on law and procedure.	
2. Put in place arrangements to safeguard members and employees against conflicts of interest and put in place appropriate processes to ensure that they continue to operate in practice.	Review of Members' and officers' gifts and hospitality completed and reported to Standards Committee and Director of HR. The registers of Members' interests and gifts and hospitality are now placed on the web site enabling easy public access. The Monitoring Officer prepares an annual report to the Standards Committee.	
3. Develop and maintain an effective audit committee (or equivalent) which is independent or make other appropriate arrangements for	The Audit Committee was established in 2007 and has met quarterly. The terms of reference are set out in the Constitution. The provision of the internal audit function within the Council is through the Audit & Investigations Team, working in partnership	

CORE PRINCIPLE 4 - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

The local code should reflect the requirements for local authorities to:	Position at March 2011	Actions Needed to Address Weaknesses and responsible officer
the discharge of the functions of such a committee.	with Deloitte & Touche Public Sector Internal Audit Ltd. The Audit Committee approve the annual Internal Audit Plan and receive progress reports at each quarterly meeting. The internal audit team have reviewed aspects of the pension fund. The team found that the authority could have substantial assurance that the systems of internal control were sound and being followed. The auditor raised some issues about the timely completion of monthly and quarterly reconciliations which are being addressed. External audit is provided by the Audit Commission. Their plans, interim reports and annual audit letter are all presented to the Audit Committee. The pension fund accounts are audited annually.	
4. Put in place effective transparent and accessible arrangements for dealing with complaints.	The Council has a well regarded corporate complaints procedure that has been praised and endorsed by the Local Government Ombudsman (LGO), as set out in the annual LGO letter and our annual report on complaints which is submitted to the Overview and Scrutiny Committee. Complaints are initially handled by service area managers and, if appealed, by trained complaints officers within departments. A central team is also in place with the Policy & Regeneration Unit to handle escalated complaints on behalf of the Chief Executive and to oversee the process as a whole.	
5. Ensure that those making decisions whether for the	Members are required to make sound decisions based on written reports which are prepared in accordance with the report writing	On line and manager presentations to support member

CORE PRINCIPLE 4 - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk Taking informed and transparent decisions which are subject to effective scrutiny and managing risk		
The local code should reflect the requirements for local authorities to:	**Position at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
authority or partnership are provided with information that is fit for the purpose – relevant, timely and gives clear explanations of technical issues and their implications.	guide and have to be cleared by both Finance and Legal. Members have attended both general and specific pension fund investment training skills sessions. A programme of training and development is in place to support Members and provide them with enough information and the skills to be able to make effective decisions.	and officer learning and development.
6. Ensure that arrangements are in place for whistle blowing to which staff and all those contracting with the authority have access.	New Whistleblowing Policy now in place. This has been publicised to staff and is on the intranet under 'Raising Concerns'. The new policy is more explicit regarding contractors/agents and the points of contact outside the authority. Whistleblowing allegations are dealt with, in the first instance, by the Audit & Investigations Team.	
7. Actively recognise the limits of lawful activity placed on them by, for example the ultra vires doctrine but also strive to utilise powers to the full benefit of stakeholders.	See above section 6. In addition regular Monitoring Officer Advice Notes are issued.	

CORE PRINCIPLE 5 - Developing the capacity and capability of members and officers to be effective

The local code should reflect the requirements for local authorities to:	Position at March 2011	Actions Needed to Address Weaknesses and responsible officer
1. Provide induction programmes tailored to individual needs and opportunities for members and officers to update their knowledge on a regular basis.	The Council runs a Member development programme which is reported to the Standards Committee annually. The Borough Solicitor provides training to new and existing Members on decision making and standards of conduct. Members are offered induction training on aspects of pension fund investment.	Regular learning and development opportunities at both meetings and external seminars.
2. Ensure that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the organisation.	Officers have an annual appraisal containing developmental objectives linked to the Corporate Strategy and Departmental Service Plans. The Council's Corporate Learning and Development Plan and service offering are based on the needs identified in individual appraisals and Service Plans. Workforce Development Plans have now been completed for all Service Areas. Each role has a job description and role specification. All the statutory officers are members of the Corporate Management Team (CMT).	

CORE PRINCIPLE 6 - Engaging with stakeholders to ensure accountability		
The local code should reflect the requirements for local authorities to:	**Position at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
1. Make clear to themselves, all staff and stakeholders, to	Annual reports are sent to key stakeholders and put on the website. The annual report includes investment and service	

CORE PRINCIPLE 6 - Engaging with stakeholders to ensure accountability		
The local code should reflect the requirements for local authorities to:	**Position at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
whom they are accountable and for what.	performance reports. Stakeholders have representation on the Pension Fund Sub Committee. A representative from the GMB Union is present to represent staff interests.	
	Regular letters are sent to employers, updating them on investment decisions and performance, and highlightinh major changes in the pension scheme. Newsletters are regularly sent to staff. An annual meeting is held with staff to outline the performance of the Fund, and management changes, and changes to the Local Government Pension Scheme.	
2. Hold meetings in public unless there are good reasons for confidentiality.	All meetings are held in public. Some parts of meetings are held in private when exempt or confidential information might be disclosed. This is subject to the agreement of the members present.	

CORE PRINCIPLE 6 - Engaging with stakeholders to ensure accountability		
The local code should reflect the requirements for local authorities to:	**Position at March 2011**	**Actions Needed to Address Weaknesses and responsible officer**
3. Ensure that the authority as a whole is open and accessible to the community, service users and its staff and ensure that it has made a commitment to openness and transparency in all its dealings, including partnerships subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so.	A review of the Council's adherence to the Freedom of Information (FOI) Act was reported to CMT in September 2005 and the Executive in October 2005. It showed that the Council is meeting its obligations under the act and that performance is generally high with regard to responding to requests within the statutory time limit.	

REVIEW OF EFFECTIVENESS

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit & Investigation's Annual Report and also by comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the governance framework, is described below:

The Council

- Has monitored performance against the Corporate Strategy Objectives by taking an annual report and has set the annual budget in accordance with the Corporate Strategy priorities;

- Receives the annual budget report which summarises the financial position and the transactions for the year and considers the annual performance plan; and

- Has agreed the Constitution which sets out the decision making structure, delegated authority and financial regulations which underpin the internal control framework. This follows cross party review by the Constitutional Working Group.

The Pension Fund Sub Committee

- Makes key decisions in accordance with the asset allocation for the fund, investment opportunities and manager performance;

- Reviews performance on both an annual and a quarterly basis;

- Meets with managers on a regular basis

- Reviews progress against an annual and three year Work Plan agreed by the Sub Committee each year.

The Audit Committee

- Has considered the work of Internal Audit during the year, the Head of Internal Audit's annual report and opinion and the External Auditor's annual letter;

- Maintains an overview of the Council's Constitution in respect of contract standing orders and financial regulations;

- Monitors the effective development and operation of risk management and corporate governance in the Council; and
- Reviews the annual statement of accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.

The Standards Committee

- Receives reports from the council's Monitoring Officer on issues concerning member conduct and would consider reports referred from Ethical Standards Officers or the Monitoring Officer which require investigation and/or determination.

Audit & Investigations

- Provide assurance to the Council on operational and financial controls via delivery of an agreed audit plan;
- Produce an Annual Audit Report including the Head of Audit annual opinion on the Council's internal controls; and
- Where identified as a result of audit work, significant internal control weaknesses have been reported to Service Directors and copied to the relevant Service or Corporate Area Director. Recommendations for improvement are made in each report. Each significant audit report is followed up after a suitable period and any failure to implement recommendations is noted and reported back to the relevant director and the Audit Committee.

External Audit and Inspectorates

- The Director of Finance & Corporate Services meets with the Council's external auditors on a monthly basis and, if appropriate, they raise any concerns they have regarding the internal control environment. These meetings become more frequent during the closing of the accounts process when any material weaknesses or issues are raised; and
- The outputs from various Inspectorates in relation to the Comprehensive Performance Assessment (CPA) provide some assurance as to the internal control environment. The last assessment under the CPA regime in 2009, gave the Council a three star, "improving strongly" rating, its highest rating to date.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

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