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Meeting: Pensions Committee

Date: Tuesday, 12th December 2006 **Time:** 5:30 pm

Place: Committee Room 4, Civic Centre, Uxbridge

Committee Administrator: Charles Francis
Tel: 01895 556454
Press Enquiries: Corporate Communications Team
Tel: 01895 250534



Councillors on the Committee

Conservative	Labour	Liberal Democrat	Union Representative
Philip Corthorne	Paul Harmsworth	Mike Cox	John Thomas (UNISON)
Richard Lewis	Janet Duncan	-	(TGWU)
George Cooper			
Michael Markham			

Substitute Councillors

David Bishop



You are invited to attend the above meeting. The agenda is attached.

David Brough, Head of Democratic Services

Smoking is not allowed in the Committee Room.
Please turn off mobile telephones during the meeting
The Civic Centre is served by public transport and parking is available to the public
attending meetings - entrance in High Street, Uxbridge

DESPATCH DATE: 4th December 2006

PENSIONS COMMITTEE – 12th December 2006 AGENDA

PART 1 - MEMBERS, PUBLIC AND PRESS

1. Apologies for absence and to report the appointment of any substitute members
2. Notes of the previous meeting (21st September 2006)
3. Exclusion of Press and Public – to confirm that all items marked Part 1 will be considered in public and that any items marked Part 2 will be considered in private

1.	PRESENTATION BY CAPITAL INTERNATIONAL	
2.	REVIEW ON PERFORMANCE THE FUND	Page 7
3.	SECURITIES LENDING	Page 11
4.	REPORT ON UBS CARS and MARS PRODUCTS	Page 13
5.	SOCIALLY RESPONSIBLE INVESTMENT	Page 15
6.	AUDIT COMMISSION REPORT	Page 25
7.	BEST VALUE PERFORMANCE INDICATORS 14 & 15	Page 27
8.	ELECTION OF SCHEME MEMBERS ONTO PENSIONS COMMITTEE	Page 31
9.	NEW LOOK LOCAL GOVERNMENT PENSION SCHEME	Page 35

4. Any other business or urgent items in Part 2



**PENSIONS COMMITTEE – 21st SEPTEMBER 2006
DECISIONS SHEET**

	<p>Members Present Cllrs Philip Corthorne (Chairman), Michael Markham, George Cooper, Paul Harmsworth, Janet Duncan & Mike Cox</p> <p>Union Representative John Thomas (UNISON)</p>	
	<p>Apologies Cllr Richard Lewis (substitute Cllr David Bishop)</p>	
	<p>Officers Present – Nancy Le Roux, Ken Chisholm, James Lake, Raj Alagh, Steve Smith, Terry O’Neill, Vijay Madar, Nicky McDermott, Karen Wardlaw, Pat Wardle, Peter Furness & Charles Francis</p> <p>Others Present – John Hastings (Hymans Robertson) Anthony Bor and George Blunden (Alliance Bernstein)</p>	
	<p>Declarations of Interest - None</p>	
	<p>Decisions Sheet – 8th June 2006. Agreed as a correct record.</p>	
	<p>Exclusion of the press and public – Agreed that item 3 would be considered in private. Members of the press and public were therefore excluded from the meeting during consideration of these items.</p>	
1.	<p>PRESENTATION BY ALLIANCE BERNSTEIN (AGENDA ITEM 1)</p> <p>A 15-minute presentation was given by representatives from Alliance Bernstein. This was their first full quarter managing assets for the Fund. Reasons for underperformance were explained. Committee noted this information and expressed their hope that improved growth trends predicted would take effect.</p> <p>RESOLVED</p> <p>1. That the performance in the second quarter of 2006 be noted.</p>	<p>Action By:</p>
2.	<p>REVIEW ON PERFORMANCE MEASUREMENT OF THE PENSION FUND (AGENDA ITEM 2)</p> <p>A presentation was given by John Hastings from Hymans Robertson. The Committee noted that all of the equity Fund Managers had performed below the benchmark for the quarter and as a result the performance of the whole fund was below the benchmark.</p>	<p>Action By: Nancy le Roux</p>

	<p>Committee noted this information and expressed their hope that growth trends would improve.</p> <p>RESOLVED</p> <ol style="list-style-type: none"> 1. That the performance in the second quarter of 2006 be noted. 2. To request that officers examine ways to improve pre-meeting briefings so that Members are better placed to question Fund Managers at Committee. 	
3.	<p>COMPENSATORY ADDED YEARS CASES (AGENDA ITEM 3) – PART2</p> <p>RESOLVED</p> <ol style="list-style-type: none"> 1. That exceptional circumstances do exist and that added years be granted to Case ‘A’. 2. That exceptional circumstances do exist and that added years be granted to Case ‘B’. 3. That exceptional circumstances do not exist and that added years not be granted to Case ‘C’. 4. That exceptional circumstances do exist and that added years be granted to Case ‘D’. 5. That exceptional circumstances do not exist and that added years not be granted to Case ‘E’. <p><i>This item was considered in Part 2 because it contained information relating to a particular employee, former employee or applicant to become an employee of, or a particular office-holder, former office-holder or applicant to become an office-holder under, the authority.</i></p>	<p>Action By: Nancy Le Roux</p> <p>Steve Smith, Terry O’Neill, Vijay Madar, Nicky McDermott</p>
4.	<p>REVIEW OF PRIVATE EQUITY (AGENDA ITEM 4)</p> <p>RESOLVED</p> <ol style="list-style-type: none"> 1. That the Committee agree to the commitment of US \$5 million to the Adam Street 2007 Offering. 2. To invite Adam Street to present to Committee, to report on the progress of the Fund’s investments. 	<p>Action By: Nancy Le Roux</p>
5.	<p>Nancy introduced the report, drawing attention to the individual responses from each of the three equity Fund Managers on SRI investing. During the course of discussions, the Committee noted that if it were to introduce investment restrictions, these could well effect returns on Hillingdon’s Fund.</p> <p>RESOLVED</p> <ol style="list-style-type: none"> 1. That the report be noted 2. To request that the current policy on socially responsible and ethical investment be monitored. 	<p>Action By: Nancy Le Roux</p>

	<p>3. To request that officers produce a further report on socially responsible investment and the approach of other LGPS funds.</p> <p>4. To affirm the current Statement of Investment Principles</p>	
6.	<p>STATEMENT OF INVESTMENT PRINCIPLES (AGENDA ITEM 6)</p> <p>RESOLVED</p> <p>1. That the revised statement of Investment Principles be approved.</p>	<p>Action By: Nancy Le Roux</p>
7.	<p>POLICY ON THE ABATEMENT OF PENSIONS (AGENDA ITEM 7)</p> <p>RESOLVED</p> <p>1. That Committee approve the revised abatement policy which would be effective from 1st October 2006</p>	<p>Action By: Nancy Le Roux</p>
8.	<p>COMPENSATION POLICY (AGENDA ITEM 8)</p> <p>The Borough Solicitor assured Members that the compensation policy is lawful and robust.</p> <p>RESOLVED</p> <p>1. That the contents of the report be noted and that under the revised policy, Pensions Committee will no longer be required to consider compensatory added years cases.</p>	<p>Action By: Nancy Le Roux</p>
9.	<p>CONSULTATION UPDATE (AGENDA ITEM 9)</p> <p>RESOLVED</p> <p>1. That the Committee note the proposed response to the proposals for a new look Local Government Pension Scheme</p> <p>2. That the Committee authorise Nancy Le Roux, Head of Pensions, to respond to the consultation document from the Department of Communities and Local Government on Governance Arrangements. That the response will be circulated to Committee once written.</p>	<p>Action By: Nancy Le Roux</p>
10	<p>BEST VALUE PERFORMANCE INDICATORS 14 & 15</p> <p>The Committee examined the last quarter's performance for BVPI 14 – early retirement and BVPI 15 – ill health retirement. The Committee noted that Hillingdon has bettered Government targets.</p> <p>RESOLVED</p> <p>1. That the report is noted</p>	<p>Action By:</p>
	The meeting closed at 6:25pm	

This is a summary of the Pensions Committee proceedings. If you want more detailed information on any of the resolutions, please contact Charles Francis on 01895 556454
Circulation of this decisions sheet is to Members of the Pensions Committee and appropriate officers.

REVIEW ON PERFORMANCE MEASUREMENT OF THE PENSION FUND

ITEM 2

Contact Officers

Nancy le Roux, 01895 250353

Papers with this report

Northern Trust Executive Report
Hymans Robertson Reports on Capital International; Alliance
Bernstein; GSAM and UBS

SUMMARY

This attached report reviews the fund management performance for the London Borough of Hillingdon Pension Fund for the third quarter of 2006 to 30 September.

Overall the Fund increased in value from £520 million at 30th June to £539 million at the end of September, an increase of 3.7%.

RECOMMENDATIONS

1. That the performance in the third quarter of 2006 be noted.
2. That Committee consider the benefits of Fund Managers attending Committee meetings in addition to the quarterly review meetings.
3. That the Fund Manager fee schedule for quarter 3 be noted and that Committee decide the information to be provided on an ongoing basis.

INFORMATION

1. There are ongoing small discrepancies between the performance data supplied by Northern Trust and the information supplied by the Fund Managers. Work is ongoing to resolve these discrepancies. However, part of the discrepancy is due to market differences and part is due to differing methodologies and so the difference will not be entirely eliminated. The narrative in this report is taken from the Fund Manager reports issued at each of their meetings and so may vary slightly from the data in the attached Northern Trust report.
2. The performance of the fund overall was positive in quarter 3, outperforming the benchmark by 0.3%.
3. Alliance Bernstein under-performed by 0.7% against their benchmark, with a return of 3.0% against a benchmark of 3.7%. Sector selection was the main contributor to this performance deficit.
4. Capital International outperformed their benchmark by 1.5%, with a return of 5.2% against a benchmark of 3.7%. The portfolio outperformed in all regions, with UK equity being the largest contributor.
5. Goldman Sachs' slightly under performed their benchmark by 0.02%, with a return of 3.14% against their benchmark of 3.16%. Duration strategy was the

main detractor from performance due to short Japan and US positions as bonds in both countries rallied over the quarter.

6. The UBS multi-asset mandate outperformed the benchmark by 0.3%, with a return of 3.9% against the benchmark of 3.6%. The main contributor to this positive performance was stock selection.
7. The UBS property mandate is still under construction, with new acquisitions being made. Performance statistics will become more relevant over the longer period.
8. Compared to the WM Local Authority summary figures for Q3, Hillingdon returns were above the average for UK equity, Overseas equity, Index-linked gilts and property. Only the UK bond was below the average. A copy of their most recent performance figures is attached.
9. Following the end of the quarter, meetings were held with Alliance Bernstein, Capital International, GSAM and UBS to review their performance. A copy of the briefing notes, prepared by Hymans Robertson in advance of these meetings, are attached. A meeting was also held with LGT Capital Partners to discuss their private equity investment.
10. Members of Pensions Committee attended each of the Fund Manager meetings, and feedback from the Fund Managers indicates how much the Fund Managers appreciate their attendance. As investment is a long-term process, the Fund Managers want to build a good working relationship with Committee, and these longer meetings enable them to give detailed explanations of their investment style and philosophy. Performance over the quarter can be discussed in depth, providing committee with greater detail on markets and strategies. Additionally the meetings are a very good source of knowledge generation for both members and officers.
11. Committee may wish to discuss whether, if they intend to continue to attend the quarterly Fund Manager meetings, there is a need to continue to invite Fund Managers to attend Committee on an annual basis.
12. Committee requested details of the fees paid to Fund managers. A schedule has been attached to this report detailing this quarters fees, the basis of their calculation and a comparison against the added value to the fund. The cumulative position for the year is also detailed. Members are asked to decide if this schedule provides sufficient information or if there is additional information they would like to be supplied on an ongoing basis.

FINANCIAL IMPLICATIONS

These are set out in the report

LEGAL IMPLICATIONS

There are no legal implications arising directly from the report

SUMMARY OF PRIVATE EQUITY HOLDINGS AS AT 30TH SEPTEMBER 2006

FUND	COMMITMENT		CALLED		RETURNED		NET CURRENT INVESTMENT	
	£000	% of Fund	£000	% of Fund	£000	% of Fund	£000	% of Fund
LGT CAPITAL PARTNERS			3,578	0.66%	241	0.04%	3,337	0.61%
Crown private Equity European Buyout Opportunities	9,216	1.69%	2,920	0.54%	241	0.04%	2,679	0.49%
Crown Global Secondaries Plc	2,033	0.37%	381	0.07%			381	0.07%
Crown Private Equity European Fund	3,388	0.62%	277	0.05%			277	0.05%
ADAM STREET PARTNERS			2,818	0.52%			2,818	0.52%
Adam Street Partnership Fund - 2005 US Fund	7,478	1.37%	1,213	0.22%			1,213	0.22%
Adam Street Partnership Fund - 2005 Non-U.S Fund	3,205	0.59%	622	0.11%			622	0.11%
Adam Street Partnership Fund - 2006 Non-U.S Fund	2,404	0.44%	216	0.04%			216	0.04%
Adam Street Partnership 2006 Direct Fund	801	0.15%	208	0.04%			208	0.04%
Adams Street Direct Co-Investment Fund LP	1,602	0.29%	173	0.03%			173	0.03%
Adam Street Partnership Fund - 2006 US Fund, L.P	4,807	0.88%	386	0.07%			386	0.07%
TOTAL	34,934	6.40%	6,396	1.17%	241	0.04%	6,155	1.13%

FUND VALUE	546,000		
COMMITMENT STRATEGY TO ACHIEVE INVESTMENT	47,775	8.75%	
	27,300	5.00%	
CURRENT INVESTMENT	6,155	1.13%	

Contact Officers

Nancy le Roux, 01895 250353

Papers with this report

nil

SUMMARY

This report follows on from a training session for Pensions Committee on 12th December 2006, where investment instruments for adding additional value to the fund were explained. This report relates to the content of that training course and the material supplied prior to the event, listed as background documents.

Northern Trust introduced the topic of securities lending, which is a low-risk investment opportunity to enhance the performance of portfolios. Securities lending, within Local Authority Pension Funds, is normally undertaken by a fund's custodian.

RECOMMENDATIONS

It is recommended that Northern Trust be appointed to implement a securities lending programme on behalf of the London Borough of Hillingdon Pension Fund.

INFORMATION

1. Stock lending is the temporary transfer of securities, by a lender to a borrower, with agreement by the borrower to return equivalent securities to the lender at pre-agreed time.

The reasons for stock lending are:

- To ensure the timely settlement of trades
- To enhance market liquidity
- To generate income

2. Securities lending covers various assets including equities, government bonds and corporate debt obligations.

3. The main advantages of stock lending to Hillingdon Pension Fund is to exploit the generation of extra income by lending our securities to third parties.

4. In the UK, the Bank of England controls stock lending, whilst HM Revenue & Customs monitors it for tax purposes. This degree of regulations makes it a relatively low-risk market in which to lend.

5. The mechanics of stock lending, along with the risks, benefits and safeguards will all be discussed in detail during the training session on this issue. Additionally, a comprehensive guide to the subject produced by CIPFA was distributed to committee on 23rd November.

Financial Implications

6. To operate a securities lending programme Northern Trust will require that the revenue from the programme be split with them. They have proposed a 65%/35% split. Therefore if they achieved their estimate for Hillingdon of £91,000 then they would earn £49,000. However, by awarding additional business to Northern Trust we may be able to negotiate a further reduction in custody fees at the next review.

Legal Implications

7. Stock lending is permitted by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 and regulations 2, 3 and schedule 1 define stock lending, investment and the limits on investments. These regulations put a 25% limit on the amount of stock, which could be lent. The Local Government Pension Scheme and Management and Investment of Funds (Amendment) Regulations 2005 increased the limit to 35%.

BACKGROUND DOCUMENTS

Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998

The Local Government Pension Scheme and Management and Investment of Funds (Amendment) Regulations 2005

CIPFA Pensions Panel: Guide to Stock Lending by Local Authority Pension Funds

Contact Officers

Nancy le Roux, 01895 250353

Papers with this report

nil

SUMMARY

This report follows on from a training session for Pensions Committee on 12th December 2006, where investment instruments for adding additional value to the fund were explained. This report relates to the content of that training course and the material supplied prior to the event, listed as background documents.

John Hastings introduced the subjects of Tactical Asset Allocation and Currency Management to Committee. This then permitted two new investment products managed by UBS Asset Management to be introduced to Committee – the UBS Market Absolute Return Strategy (MARS) and the UBS Currency Absolute Return Strategy (CARS). This report relates to these two products.

RECOMMENDATIONS

That Committee agrees to a change to the way the multi-asset allocation, invested with UBS, is managed. That 2% of the current UBS holding be invested in MARS and 1% be invested in CARS.

INFORMATION

1. Tactical Asset Allocation (TAA) and the mechanics of this tool will have been explained in detail by John Hastings during the training session. Additionally he will explain the various ways in which Fund Managers can use currency management.
2. TAA can make an important contribution to the relative performance of multi-asset portfolios. The ability to allocate assets effectively between various asset classes within a benchmark can add to long-term investment returns. Traditionally, TAA involved the buying and selling of the underlying assets, but a new approach has been developed based on the use of pooled funds.
3. Earlier this year, UBS launched two new pooled funds – a Market Absolute Return Strategy (MARS) and a Currency Absolute Return Strategy (CARS). Used in combination, these funds enable a multi-asset portfolio to achieve a desired TAA position through a derivatives overlay, which is more cost effective than through the traditional TAA route. They also enable the exploitation of a wider range of investment opportunities than permitted in the strategic benchmark. The widening of the investment opportunity means that it is possible to achieve higher investment returns, with lower asset allocation risk at the overall fund level.
4. These pooled vehicles are designed to achieve asset allocation positions for a whole portfolio through a relatively small investment.

5. UBS have proposed that we should invest 2% of our UBS multi-asset fund through MARS and 1% through CARS. As our current investment in the UBS multi-asset mandate is around £170 million, this level of investment would commit approximately £5.1 million to these funds. This would also be the maximum amount which could be lost.

6. These funds are not yet generally available in the market, but when they are introduced they will generate higher fees. However, as an existing investor, UBS will manage these funds for Hillingdon within our current investment fee arrangement at no additional cost. (A larger investment would incur an increase to the fee structure.)

Financial Implications

The financial implications are detailed within the report.

Legal Implications

This type of investment is permitted under The Local Government Pension Scheme and Management and Investment of Funds (Amendment) Regulations 2005. An amendment would be required to our Investment Management Agreement with UBS.

BACKGROUND DOCUMENTS

UBS: The case for Tactical Asset Allocation

Contact Officers	Nancy le Roux, 01895 250353
Papers with this report	

SUMMARY

At both June and September Committees, Socially Responsible Investment (SRI) was discussed. This report follows on from those discussions to provide information on the position of other London Borough Pension Funds on this issue and on a proposed way forward for the Hillingdon Fund.

POSSIBLE RECOMMENDATIONS

- To continue membership of the LAPFF as the main vehicle to address SRI issues for a further 3 years.
- To make SRI a regular agenda item, but to concentrate on LAPFF issues and the Fund Managers engagement with companies on Corporate Governance issues

INFORMATION

1. During September's meeting further information was requested on other funds activism in the area of Ethical Investment and on Socially Responsible Investment in general.

2. By a request through the Society of London Treasurers, we asked all London Authorities for their views on this subject. Specifically we asked:

London Borough of Hillingdon Pension Fund is currently reviewing its approach to ethical investment.

Currently Hillingdon's investment policy is to obtain the best possible return using the full range of investments authorised under the Local Government Pension Scheme regulations and it is not very pro-active about ethical investment.

This request is to ask SLT colleagues how other London Borough Pension Funds deal with ethical investment, as members on our Pensions Committee want to look at this in more depth and are wondering how other Council funds deal with the issue.

If they returned to our Head of Pensions nleroux@hillingdon.gov.uk, then Nancy would circulate a summary of responses.

We have had replies from 18 other London Boroughs plus a note from LAPFF and from Devon, so we have a fairly representative range of replies. A summary of the replies received is appended to the end of this report.

3. The general consensus from these replies is that it the fund's responsibility to maximise the return on investments using the full range of investments permitted under the regulations and to ensure that Fund Managers are fully engaged with companies on any ethical considerations. Very few funds place any restrictions on investments into specific sectors and similarly very few invest in 'ethical' funds as a separate vehicle. It would, therefore, appear that our current policy is very much in line with other London Boroughs.

4. From a legal perspective, the Goode Committee considered the subject of ethical and socially responsible investment in their Report on Pensions Law Reform in 1993 and concluded that the law on the matter was clear and there was no need to recommend any change. Their summary of the law on the subject was as follows:

"Trustees are not obliged to divest themselves of all their personal beliefs and social and political views in managing the investments of the pension fund. As trustees they are perfectly entitled to have a policy on ethical investment and to pursue that policy, so long as they treat the interests of the beneficiaries as paramount and the investment policy is consistent with the standards of care and prudence required by law. This means that trustees are free to avoid certain kinds of prudent investment which they would consider scheme members would regard as objectionable, so long as they make equally advantageous investments elsewhere, and that they are entitled to pay funds into investments which they believe the members would regard as desirable, so long as these are proper investments on other grounds. What trustees are not entitled to do is to subordinate the interests of the beneficiaries to ethical or social demands and thereby deprive the beneficiaries of investment income or opportunities they would otherwise have enjoyed."

5. However, last month The Freshfields Report was published. This reported on a study, compiled by the Law Firm Freshfields Bruckhaus Deringer on behalf of the United Nations Environment Programme's Finance Initiative. The study analysed the fiduciary duty of investment managers in several jurisdictions and concluded that fund managers can take account of environmental, social and governance issues (ESG) when making investment decisions. In the UK, the report concluded that 'it may be a breach of fiduciary duties to fail to take account of ESG consideration that are relevant and to give them appropriate weight, bearing in mind that some important economic analysts and leading financial institutions are satisfied that a strong link between good ESG performance and good financial performance exists.'

ALTERNATIVE APPROACH

6. It appears that rather than making a positive decision to divest in arms or tobacco or any specific sector, there is a general move towards active socially responsible investing. So rather than looking at investment from the point of view of what the investment monies are being used to purchase, the drive is to examine the Governance of the individual companies in which we invest money. We should be concerned that we are only investing in well-run companies. Issues such as Workforce Practices, Climate Change and Labour Standards in China are currently all very high on the agenda. We do not need to do this ourselves, but we should ensure that our Fund Managers are taking these issues seriously.

7. Our membership of the Local Authority Pension Funds Forum is one of our main means of tackling these issues and, as a participant member they lead on these issues on our behalf. They also provide very detailed guidance on what level of involvement we should be seeing from our Fund Managers on Governance issues.

8. Our Fund Managers do provide details on a quarterly basis of their voting and on other engagement issues; however, this is an area we could develop. As apart of our quarterly meetings with our managers we could engage with them on these issues and collate a separate Committee agenda item to ensure their activity in these issues.

9. LAPFF have published a guide on Shareholder Engagement: Best Practice Guidelines for Holding Fund Managers to Account. This is a very useful document, which we could use to model a regular monitor of mangers activity.

10. If it is agreed that this is the best way forward then it is recommended that the fund commit to a longer-term membership of the LAPFF. Active membership will keep us fully informed of all the current issues on which we should concentrate. Further, they provide regular alerts on topical issues with individual companies. Recently they have been actively engaging with BP on their health & Safety problems. Their engagement is done in such a way so as not to harm our investments, but to work with companies to find acceptable solutions.

Financial Implications

Our initial membership of the LAPFF expires at the end of the financial year. The costs of renewing membership are £8,250 per annum for a 3-year membership, or £8,460 to renew for one year.

Legal Implications

The legal implications are set out in the report.

BACKGROUND DOCUMENTS

Report to Pensions Committee on 8th June 2006 on Socially Responsible Investment and attached papers.
Freshfields Report

Barnet

We take the couple of responses you have already on this issue. I attached for info a report and decisions that went to our general functions ctte on this 4 years ago.

Recommendation / Conclusions (for decision by the Committee)

That the Pension Fund's stance on Socially Responsible Investment as stated in the Statement of Investment Principles be endorsed.

That, In view of the fact that at 30 September, 2002 just 0.5% of the Pension Fund was held in companies which may have been mentioned by Campaign Against Arms Trade (C.A.A.T), and the duty Trustees have to the members of the Pension Fund, no further action be taken.

Clive Medlam, Deputy Director of Resources & Chief Finance Officer, London Borough of Barnet

Bexley's policy is covered by two sections from our Statement of Investment Principles -

"Negative Screening

The Council reserves the right to exclude from its portfolio any company which has made profits from illegal activities or which has knowingly pursued extreme and clearly unacceptable standards of business behaviour. Any such exclusion would only follow consideration of a full report to the Pensions Committee, which would include advice from the Director of Finance and Business Services and the Fund's external advisor.

Policy on Socially Responsible Investment

In November 1999 the Investment Panel adopted the following policy on Socially Responsible Investment:

The Council's overriding duty to the members of its pension fund is to maximise financial returns within a prudent pattern of risk. Subject to complying with that duty, the Council expects its investment managers to

engage actively with the companies in which they invest with a view to encouraging those companies to adopt practices and procedures in respect of social, economic and environmental matters which
* meet all legal requirements * reflect good practice and provide sustainable competitive advantage;
and

* protect the company and its shareholders from harmful publicity."

I hope this of use.

Nigel Bate, Head of Technical Finance Tel. 020 8294 6647
for David Berry, Director of Finance and Business Services

Brent

My understanding from the 1980's legal case involving the Miners Pension Fund was that the fund must be invested in the financial interest of the beneficiaries - ethical and moral views cannot interfere with their investment returns. However, there is room for views that argue that a good company should be a well run company that does not jeopardise its economic future by indulging in behaviour that will harm its reputation. For example, shortcomings in environmental issues have damaged the share prices of oil companies. Exploitation of children in the production of goods has damaged the share price of companies that make footballs etc. But we do not believe that there is room for the ethical view simply that 'we don't like armament firms'.

However, Brent does not disinvest from companies (we index-track the FTSE350 in UK equities). As we have neither the resources nor the expertise to engage with companies, we have joined the LAPFF (Local Authorities Pension Fund Forum) so that they (through PIRC) can engage on our behalf. Overseas, the manager also invests for the long-term benefit of the fund, engaging where appropriate.

Martin Spriggs
Head of Exchequer & Investment
Finance & Corporate Resources

Bromley

We have had very firm legal advice that it is the pension funds responsibility to maximise the return on the investments (in a manner that is consistent with proper risk management) within the law. We have responded to ethical issues on the basis that our managers positively engage on ethical issues and enter into a dialogue with the management of firms in which we invest. I do not believe it is lawful to exclude firms purely on "ethical" grounds. However, in forming a judgement on where to invest managers should be taking a long term view and where a company's activities open it to the risk of substantial future legal damages as a result of their activities the managers take a view that it is prudent not to become too exposed. One of the interesting debates we have had with the unison rep on the committee is around investment in companies with armaments vs. support for British manufacturing industry - it is hard to disengage from armaments without disengaging from what is left of UK manufacturing.

Paul Dale

Enfield

Enfield's approach is very straightforward. We have agreed the appropriate statements and codes, but the fiduciary duty is paramount and the pension fund is not seen as a vehicle for the exercise of personal moral views. When questioned by the likes of CAAT or various "animal rights" groups a very robust line is taken. If any of these groups don't like medical drugs, booze, cigarettes or guns then I advise them to campaign for a change in the law.

Hammersmith

Hammersmith's investment policy is the same as yours i.e. to obtain the best possible return using the full range of investments authorised under the Local Government Pension Scheme regulations and we are not pro-active about ethical investment.

For information we are members of the Local Authority Pension Fund Forum.

Bob Pearce, Business Support Section, Finance Department
Hammersmith & Fulham Council

Haringey

John Hardy, Head of Finance - Budgets, Projects & Treasury

The Council does take Socially Responsible Investments (SRI) issues seriously but this needs to be consistent with the need to ensure that returns from investments by the Pension Fund are as high as possible. This is because the Council has a fiduciary responsibility to minimise the cost to the Council of employer's contributions to the Pension Fund.

We have a Socially Responsible Investments (SRI) policy for UK shares held which is basically for Fund Managers to engage on behalf of the Fund with UK companies in which the Fund invests where shortcomings are identified. Haringey's Socially Responsible Investment policy relates to issues of the Environment, Sustainability, Human Rights and Employee Care and the impact of such issues on the Fund's UK Equity portfolios. These issues are of concern to the Pension Fund because it is considered that companies who do not have regard to these issues are in danger of adversely affecting the future prospects of the company, and potentially the company's share price. By using its influence, via its investment managers, the Fund will seek to improve corporate behaviour and thereby reduce the extent of these dangers. Our SRI policy does not restrict our fund managers in holding the shares that they wish to hold on our behalf. Our SRI policy is monitored through our Fund Managers who report SRI issues to officers and Pensions Panel at the quarterly meetings held.

Havering

In response to a request on approach to ethical investment please find below a statement extracted from the current version of our SIP:

SOCIAL ENVIRONMENTAL AND ETHICAL CONSIDERATIONS

_'The Investment Committee has considered socially responsible investment in the context of its legal and fiduciary duties, and the view has been taken that non-financial factors should not drive the

investment process at the cost of financial return on the Council's Pension Fund. Therefore, the Investment Committee is of the view that there should be non-interference with the short-term day-to-day decision making of the Fund Managers.

Over the longer term, the Investment Committee requires the Investment Manager(s) to consider, as part of the investment decisions, socially responsible investment issues and the potential impact on investment performance. Beyond this, the Investment Manager(s) has full discretion with the day to day decision making.'

Regards, Debbie Ford

Hounslow

No disagreement with likes of Enfield and Bromley. Ethical NO,NO,NO.SRI,Governance etc can talk about to varying degrees

Alan Steele, Hounslow

Kensington & Chelsea

Please see the attached extract from our SIP re ethical investment:

We have considered socially responsible investment in the context of our legal and fiduciary duties and obligations. In view of our principal objectives described earlier in this SIP, we take the view that non-financial factors should not drive the investment process at the cost of financial return on the Fund. We do not actively disinvest in companies for ethical, social or environmental reasons as this may impact on fund returns and would not accord with our principal objectives. We also believe that we do not have the relevant expertise to make frequent assessment of the financial impact of companies' activities. To that extent, we hold a policy of non-interference with the day-to-day decision making of the investment managers. We encourage the investment managers to consider the financial impact of good and poor socially responsible activities of companies as part of their due diligence. If their assessment of companies for investment indicates that a corporate governance, social, environmental or ethical factor could have an impact on that company's financial performance (positively or negatively) we believe the investment managers should take account of it.

Not sure that this adds a great deal to your position, but at least tells you that ours is similar! Hope this is some help, but please contact me if you need further information.

Alex Robertson, Pension Fund Accountant, Room 123A, Finance, Information Systems and Property, Royal Borough of Kensington and Chelsea,

Kingston

Kingston does not have a specific ethical investment policy. Some years ago, we invested 2% of the total Pension fund in an "ethical" fund on the basis of that funds past performance and equities Bias.

We no

longer have a holding on the fund.

Tony Knights, Director of Finance, Royal Borough of Kingston upon Thames

Lambeth

We currently do not hold ethical investments in our pension portfolio.

A decision to close the fund was taken in June last year BY Members of the Pension Fund Investment Panel, based on the consistent poor performance of this fund relative to the returns and performance of

similar funds and our overall holdings.

The funds released from the ethical fund holding have been used to invest in alternative investments.

Mike Suarez, London Borough of Lambeth

Lewisham

Further to the e-mail circulated to SLT Members, I set out below Lewisham's present position.

Our policy is that "investment managers will operate a policy of positive engagement as opposed to negative screening. Investment managers will use the voting rights of the Fund to encourage ethical and socially responsible corporate governance based on the principle that in the longer term, this should enhance shareholder value. Investment managers are encouraged to refrain from investing in organisations engaged in unethical practices, provided that there are suitable alternative investments, which will not in the long term result in a reduced value of the Fund".

We presently employ RREV to report on SRI. There is presently much Member interest in pursuing a more active SRI policy and some pressure from Green / Liberal Members to consider a negative screening policy. A special meeting of our Pensions Investment Committee is to be called on 6 November to discuss Ethical Investing further.

David Gallie, Head of Corporate Resources

Newham

Newham's Policy on Socially Responsible Investment is contained within Section 7 of our Statement of Investment Principles (see attached). I would be interested in receiving a summary of the responses once they have been collated.

Jackie Shute, Corporate Finance Manager, London Borough of Newham

Richmond

Further to the request (I think via SLT) for information on our fund's approach to ethical investment.

- I think we were probably one of the first Councils to have an ethical policy and to carry out "engagement" activity in this area, dating back to late 1980's through to the mid/late 1990's. This was done on a "direct" basis, involving meetings with companies - from memory these included Anglian Water, Blue Circle, Rolls Royce and a number of others.
- I think the motivation in doing this was to help to establish engagement by investors as an accepted approach - this initiative was commenced at a time when few (if any) fund managers devoted any time or resources to the field.
- If the enquiry encompasses corporate governance-type activity as well, we were also active in this field from the mid-1990's, establishing a set of corporate governance policies and issuing voting instructions to our managers (using the NAPF Voting Issues Service for this purpose). We would also write to an engage in correspondence with companies post-voting.
- From early 2004 onwards, however, we have delegated activity in these areas to our appointed managers, after examining the approach and policies that they would apply (we also receive reports of their activity on a quarterly basis).
- In reality, part of the reason for this was time and resources - since 2000 we have effectively had significantly less than 1 full time post deducted to all pension investment and accounting issues. The other factor was a genuine recognition that (a) the managers now dedicated a significant amount of resources to the field and there seemed to be a case for utilising these and (b) provided the approach that will taken by the managers is acceptable, there is case to made to that voting is an integral part of fund management, that voting has an economic value (as evidenced by the differential price of otherwise similar non-voting shares in some capital structures), and that for these reasons it is better not to separate the two disciplines. The disadvantage in this is obviously having less control over voting and less "visibility", although I recall that (I think) our managers would have been happy to implement our own voting template had we wished this to be done.

Malcolm Smith, Senior Accountant, Accountancy (CFO Section), Finance

Southwark

We have undertaken considerable work on this, not least the impact of limited exclusion from our high performance global unconstrained (?) investments.

Notwithstanding this work, currently there remain NO specifically excluded investments within our fund.

Discussions continue with our cross party investment panel and we are shifting towards a more robust SIP and enhanced MI so that at least we can show interested parties where we are investing at any point in time.

Tower Hamlets

The Council's SIP basically lets the market determine what is ethical: _

Social, Environmental and Ethical Considerations: The Council has a fiduciary responsibility to obtain the best level of investment return consistent with the defined risk parameters as embodied in the strategic benchmark. However, the Council recognises that Social, Ethical and Environmental issues are factors to be taken into consideration in assessing investments. The investment managers have confirmed they pay due attention to these factors in the selection, retention and realisation of investments. The Investment Panel will monitor the managers' statements and activities in this regard.

Jim

Waltham Forest

We have been advised that it is the Pension Fund's duty to maximise the return on its investments. In the past, the main focus of concern has been tobacco, and we have asked our managers to consider whether they need to invest in tobacco firms. Interestingly, one of them has agreed that there is no need to do this, whereas the other insists they cannot maximise returns without such freedom. Otherwise, we have encouraged the managers to engage with the management of firms in which we are investing on ethical issues.

Graham Kirwan, Group Finance Manager

LAPFF & Devon

Apologies for not getting back to you yesterday - I was in Devon on non- LAPFF business. I'm afraid we have no up-to-date information about how individual LAPFF member funds approach this subject. However the work programme that PIRC will be following as agreed by the Forum includes

- · the development of a LAPFF briefing on the UK defence industry
- · continuation of our China Project i.e. engagement with FTSE 100 companies investing in China
- · production of our trustee guide on human capital reporting as part of our work on company workforce practices

In addition our Hon Secretary Stuart Imeson will be writing out to all members prior to our AGM in November inviting suggestions for inclusion in the work programme, so please feel free to raise this subject in that context and maybe we could do more that would be of assistance to you and other members.

Taking my LAPFF hat off for a moment and speaking from just personal experience I have found this to be a tricky subject. Given the regulation under which LGPS operates 'Trustees' must be careful not to allow their personal views to take precedence over the investment needs of the fund – indeed to do so could invite legal challenge. Some funds have investments to varying degrees in so-called ethical funds and this is one area you could consider, although others might regard this as little more than 'tokenism'. I think the former practice of disinvesting in certain types of investment e.g. tobacco companies, has largely been replaced by a more proactive engagement approach e.g. by monitoring the marketing of tobacco products particularly in third world countries. However with the development

of multi-national, indeed global conglomerates it is sometimes extremely difficult to identify and separate areas of concern. As one of my former chairman (a labour councillor) put it “when you sup with the devil you need to use a long spoon”

I hope this is of some help although can I again emphasise that the preceding paragraph represents my own thoughts rather than an official LAPFF line

Keith

Audit Commission Report: Efficiency Challenge – Costs of administering local government pension funds in London

ITEM 6

Contact Officers

Nancy le Roux, 01895 250353

Papers with this report

Audit Commission Report: Efficiency Challenge – Costs of administering local government pension funds in London

FOR INFORMATION

1. On 23rd October the Audit Commission published a report on the costs of administering the local government pension scheme in London. The report is part of a series of reports they are producing on identifying potential efficiency savings for authorities.

2. The report looking at both the administration of benefits and the management of funds, comparing costs in London with the rest of the country.

3. At this stage, this report is for information purposes only, to identify possible future efficiency savings to London pension funds. However, they did identify 5 possible options for the future way forward:

- Retain the status quo
- Create one London-wide pension fund – both administration and fund management
- Create a few larger London pension funds, eg West London, to cover both administration and fund management
- Create one London authority for core administration and to leave fund management at individual boroughs
- Collaborative or partnership working

4. Of these options, I think the 4th is the only viable one as each authority can then retain control of their fund and its investment. There would be some potential savings in administration through economies of scale, although the General Fund would have the additional costs of accommodation and payroll. Also Hillingdon would still retain the employers' function and so there would potentially be a larger drain on the General Fund.

5. At a National Association of Pensions Funds (NAFP) meeting on 14th November, Terry Crossley, Head of Local Government and Firefighters' Pensions at the DCLG commented on this report. He stated that there are no current plans, and indeed no future plans as far as he is aware, by the Government to combine London Borough pension funds. Further, he claimed that such a move could not happen without local government reorganisation. He went on to say that after reviewing the report, prior to publication, he had asked the Audit Commission not to publish the report which he called a 'waste of paper' and just 'daft'.

6. However, as the Audit Commission published the report regardless, the DCLG has committed themselves to re-opening the study, collecting all relevant data again and then rewriting the report into some meaningful form.

7. The report has been discussed with the Director of Finance and Resources, as the Society of London Treasurers will, no doubt want to agree a common approach before any further actions would come to individual authorities.

FINANCIAL IMPLICATIONS

There are no legal implications arising directly from the report

LEGAL IMPLICATIONS

There are no legal implications arising directly from the report

BEST VALUE PERFORMANCE INDICATORS**ITEM 7***Contact Officers*

Ken Chisholm, 01895 250847

Papers with this report

nil

SUMMARY

This report summarises the last quarter's performance for BVPI 14 - early retirement and for BVPI 15 - ill health retirement.

RECOMMENDATIONS

That the contents of the report be noted.

BACKGROUND

- 1) At Committee Meeting on 2nd September 2003 members requested a quarterly update on the BVPI indicators 14 and 15.
- 2) The authority targets are set by the Head of Personnel, agreed by Corporate Management Team and included in the Council Plan. The targets are set from the results of the previous year.
- 3) The Government target was set at the Top Quartile or better for all English Authorities and for 2004/05 these were BVPI 14 - 0.19% and BVPI 15 – 0.15%.
- 4) The base figure for the number of pensionable employees within Hillingdon is 8,463.

Performance for the first quarter of 2006/07

- 4) BVPI 14 – Early retirement

	Annual Target (%)	Actual(%)		Variance(%)
2002/03	0.60	0.79		+0.19
2003/04	0.50	0.83		+0.33
2004/05	0.50	0.66		+0.16
2005/06	0.60	0.48		-0.12
	Annual Target (%)	Target year to date (%)	Actual year to date (%)	Variance (%)
2006/07	0.58	0.29	0.41	+0.12

The annual target for BVPI 14 allows for 49 early retirements.

During the first half of 2006/07 there have been 35 early retirements. 21 of these have been voluntary, 9 were on the grounds of redundancy, and 5 teachers were retired early on the grounds of efficiency. Therefore, of the 0.41% of early

retirements to the end of September only 0.16% have been within the employers control.

Redundancy figures will be higher over this financial year as a result of the Council restructuring exercise. So it is anticipated that the target will be exceeded.

5) BVPI 15 – ill health

	Annual Target (%)	Actual(%)		Variance(%)
2002/03	0.60	0.79		+0.19
2003/04	0.60	0.45		-0.15
2004/05	0.45	0.10		-0.35
2005/06	0.11	0.27		+0.16
	Annual Target (%)	Target year to date (%)	Actual year to date (%)	Variance (%)
2006/07	0.25	0.125	0.07	-0.055

The annual target for BVPI 15 allows for 11 early retirements.

During the first 6 months of this year there have been 6 ill health retirements, 3 of which were teachers.

6) The audit Commission have confirmed that the definition of BVPI 14 as we apply it, is their definition and so should continue to be used. Voluntary retirements, out with the authorities control should be included.

Definition

“BVPI 14 – Early retirements: The indicator is limited to permanent staff in the Local Government Pension Scheme or similar official pension arrangements for teachers and other staff except for police and fire authority employees. Staff not in an official occupational pension scheme should not be included in the numerator or the denominator.

An early retirement for the purpose of the indicator is one where the member of staff retiring is:

- a) aged 50 or over; and
- b) has **not** reached their normal retirement date nor satisfied the 85 year rule, unless specifically retiring on the grounds set out for BV 14 (i.e. job is no longer needed or in the interests of the efficient exercise of the authority’s functions); and
- c) drawing a pension before they achieve the circumstances set out in (b); and
- d) not retiring on the grounds covered by BV 15.

If staff under 65 but over 50 who do not meet the ‘85 year rule’ and have not reached their normal retirement date (section 25 of the Local Government Pension Scheme Regulations 1997) retire, they count as early retirees unless they retire on medical grounds, when they would be counted in BV 15. That applies even if they do not need the authority’s permission to retire under Regulation 31 (1) of the Local Government Pension Scheme Regulations.

Teachers aged over 50 but under 60, retiring on actuarially reduced pensions, and drawing a pension should be counted as early retirees as far as BVPI 14 is concerned except for those who would be counted in BV 15. “

FINANCIAL IMPLICATIONS

There are no financial implications arising directly from this report.

LEGAL IMPLICATIONS

There are no legal implications arising directly from this report.

ELECTION OF SCHEME MEMBERS TO PENSIONS COMMITTEE

ITEM 8

Contact Officers

Nancy le Roux, 01895 250353

Papers with this report

Letter to all scheme members inviting applications to stand for election

FOR INFORMATION

1. A change to the Council Constitution in May 2006 increased the membership of Pensions Committee to:

7 Councillor members (voting) and politically balanced plus 2 Trade Union members (non-voting) and 2 Non-Trade Union Scheme Members (non voting - 1 Non-active Member and 1 active Member)

2. As a result an election will be held in February 2006 for the 2 non-trade union scheme member positions.

3. All scheme members, active, deferred and pensioners, have been sent and invitation to stand for election. Applications must be returned by 31st December 2006.

5. A further communication and ballot paper will then be sent to all members during January for return in February. David Brough has offered us the support of his electoral services team to assist in this ballot.

6. The initial term will be for three years from April 2007 until March 2010, and thereafter future elections will be for a four year term to align with Council elections.

FINANCIAL IMPLICATIONS

There are no legal implications arising directly from the report

LEGAL IMPLICATIONS

There are no legal implications arising directly from the report

BACKGROUND DOCUMENTS

Council Constitution – London Borough of Hillingdon



NOTICE OF ELECTION OF SCHEME MEMBER REPRESENTATIVES TO THE PENSIONS COMMITTEE FOR THE LONDON BOROUGH OF HILLINGDON PENSION FUND

The Pensions Committee are inviting applications from active, deferred and pensioner members of the London Borough of Hillingdon fund of the Local Government Pension Scheme to stand for election to two new positions on the Pensions Committee. The two posts are to act as the representative for active scheme members and for retired and deferred scheme members. As Hillingdon's trade unions are already represented on Committee this election is only open to non trade union members of the scheme.

These positions will not have voting rights on Committee but they will have access to Committee papers, be fully consulted on investment and administration issues and have the opportunity to express their views.

The initial term will be for three years from April 2007 until March 2010, and thereafter future elections will be for a four year term to align with Council elections.

Committee meets four times per year for formal committee meetings. These meetings are normally held early evening. Additionally there will be a requirement to attend training sessions for up to 3 days per year. Other ad hoc meetings to discuss specific issues may be organised as required. There will be no remuneration payable for this position, but travelling expenses will be paid for attendance at meetings at locations other than the Civic Centre.

As a representative of the scheme membership you will also be required to feedback to the membership on the Committee's activities. Space will be made available on the fund's web site and newsletters for this purpose.

Applications must be submitted on the enclosed form by 31st December 2006. Other forms of application will not be accepted. A person specification for the positions is also enclosed.

It is proposed to hold two separate ballots during February – one for an active member representative and one for a retired or deferred member representative. Full details of the candidates and a ballot paper will be distributed in early February. All members will be entitled to vote, but only in the category of membership to which they currently belong.

Any person considering making an application to stand for election is welcome to come and discuss the role with me prior to completing their application. Please contact me for further information on 01895 250353.

Nancy le Roux
Head of Pensions

PERSON SPECIFICATION

Pensions Committee Member

The London Borough of Hillingdon Pension Fund is currently valued at just under £540 million. The Pensions Committee is responsible for the investment strategy of the fund; for the appointment of Fund Managers; and for the performance monitoring of the Fund Managers, Custodian and Consultants. Members should be able to commit to 3 days training per annum.

Desirable

Aptitudes/Abilities/Skills **A sound financial understanding and strong analytical skills**

An interest in financial markets

An awareness of pension scheme design and in particular in funded final salary arrangements

After the completion of 2 years as a committee member and so 6 days training members should have developed:

A sound knowledge of investment strategy, including Active management v passive management; segregated funds v pooled funds; benchmarking; principles of asset/liability modelling

An awareness of the Investment Framework for the Local Government Pension Scheme

An interest in developing their investment knowledge, particularly in areas such as – asset classes; investment strategies; risk considerations; performance monitoring

Note: All applications from active members will be verified with line managers to ensure that consent to their being available for these duties has been agreed, prior to their application to stand being accepted.

Contact Officers

Nancy le Roux, 01895 250353

*Papers with this report*Letter from Terry Crossley announcing draft scheme changes and Statement by Phil Woolas MP made to Parliament on 23rd November 2006**FOR INFORMATION**

1. In a Statement to Parliament on 23 November 2006, Phil Woolas MP, Minister for Local Government, outlined proposed reforms to the Local Government Pension Scheme (LGPS). This signifies the start of the statutory consultation exercise to introduce the new scheme from 1 April 2008.

2. The new scheme will have an improved benefit regime, but it will cost employees earning over £16,000 more. Advice will be sought from our scheme actuary on the effects on employers' costs. A summary of the main proposals are as follows:

- final salary pension benefits to be based on 1/60th of salary for each year of pensionable service, with the flexible option to commute pension at the rate of £1 of annual pension for £12 of lump sum up to a maximum tax free lump sum of 25% of the capital value of accrued benefit rights at the date of retirement;
- a normal Pension Age (NPA) of 65 for release of unreduced benefits;
- survivor benefits for life, payable to spouses, civil partners and "nominated" dependent partners (opposite and same sex) at a 1/160th accrual;
- survivor benefits payable to children at a maximum accrual of 1/160th;
- revised ill-health retirement package with no review system, to provide a higher level of benefits for total incapacity, and with different levels of benefits to recognize lesser incapacities;
- a death in service tax free lump sum of 3 times salary;
- tiered employee contribution rates with 5.5% payable on the first £12,000 of pensionable pay, and 7.5% to be paid on the excess over £12,000, estimated on current membership to produce an average rate of 6.3%;
- a facility for Scheme members to purchase up to a maximum £5,000 of additional annual pension

4. As yet we have no details on how existing members will be transitioned into the new scheme. The draft consultation regulations are due to be published at the start of December, with the final regulations due to be laid by 1 April 2007.

FINANCIAL IMPLICATIONS

There are no legal implications arising directly from the report

LEGAL IMPLICATIONS

There are no legal implications arising directly from the report

23rd November 2006

Dear Colleagues

LOCAL GOVERNMENT PENSION SCHEME

With Ministers' agreement, I enclose at Annex A a copy of a Statement made to Parliament on 23 November by Phil Woolas MP, Minister for Local Government about the reforms proposed for the Local Government Pension Scheme (the LGPS) in England and Wales.

The Government's overall objectives for the LGPS are set out in the Statement which itself marks the start, of the statutory consultation exercise, to introduce a regulatory framework to provide a new-look LGPS with effect from 1 April 2008.

The Minister's Statement outlines several consistent themes which have underpinned the reform timetable for the LGPS since first announced on 2 December 2005 to Parliament, and subsequently in the department's letter of 5 December to all LGPS interests in England and Wales.

This letter, which marks the start of the necessary statutory consultation exercise, provides information about the form and content of the draft regulations package which will be circulated for comment early next month. Consultees may wish, therefore, to consider the outline elements of the new-look Scheme benefit package set out below, in advance of the actual draft statutory instrument's circulation.

Objectives for reform

The Government has undertaken to ensure that measures to reform the Scheme are affordable, viable and fair to the taxpayers who guarantee the Scheme's statutory pension promise. Ministers have confirmed that it remains essential that the Scheme should also be as flexible and accessible as possible, for both employees and employers, so that it can provide a modern, equality-proofed range of defined benefits, both now and in the future.

It remains a significant objective also to achieve an equitable balance between the level of pension benefits provided by the scheme, and the actual cost of provision from all stakeholders' points of view, including tax payers.

The Statement affirms the Government's intentions to maintain stability in the costs of the Scheme, and to ensure an equitable benefit/cost balance between all stakeholders. Throughout the LGPS reforms process the Government's intention has been to ensure that no additional costs are imposed on council tax payers. It is intended, therefore, to establish an appropriate, statutory-based mechanism for sharing future cost pressures in order to minimise any adverse effects on council tax levels. This is to be in place within the Scheme's statutory framework

by March 2009 and so in time to operationally influence, and be influenced by, the 2010 Scheme actuarial valuation exercise. The combined outcome of this important new arrangement will then be taken into account in assessing the results of the valuation exercise, and the eventual outcomes on new Scheme contribution rates, from April 2011.

Elements of a new-look Scheme

An analysis of the responses received to the consultation exercise, *Where Next? – options for a new-look Local Government Pension Scheme in England and Wales*, has now been completed. Overall, the responses affirmed a clear preference, from all Scheme interests, for the retention of a final salary pension benefit package, which is viable, affordable, and fair to Scheme members and taxpayers.

Ministers have concluded, therefore, that such a package should form the basis of the new-look LGPS for introduction in April 2008. There was solid support also for several affordable benefit changes as suggested in the consultation document. In other areas, there was a more diverse range of comments. The responses have been analysed and can be viewed on www.communities.gov.uk/lgps.

To ensure compliance, therefore, with the policy intentions set out in the Parliamentary Statement, and taking account of the responses received, Ministers have agreed to a new-look LGPS benefit package for statutory consultation purposes at this stage.

The following main elements being proposed now are: -

- **final salary pension benefits to be based on 1/60th of salary for each year of pensionable service, with the flexible option to commute pension at the rate of £1 of annual pension for £12 of lump sum up to a maximum tax free lump sum of 25% of the capital value of accrued benefit rights at the date of retirement;**
- **a normal Pension Age (NPA) of 65 for release of unreduced benefits;**
- **earliest age for release of pension to be 55 by 2010 for current members, except on grounds of ill-health;**
- **earliest age for release of pension to be 55 for new joiners from 1 April 2008, except on grounds of ill health;**
- **augmentation of membership/benefits on an objectively justified basis;**
- **the better of the last year's whole time equivalent salary or the 're-valued (in line with the Retail Price Index (RPI)) average of the best three consecutive years' salary in the last ten years of service;**
- **survivor benefits for life, payable to spouses, civil partners and "nominated" dependent partners (opposite and same sex) at a 1/160th accrual;**

- **survivor benefits payable to children at a maximum accrual of 1/160th;**
- **revised ill-health retirement package with no review system, to provide a higher level of benefits for total incapacity, and with different levels of benefits to recognise lesser incapacities;**
- **a death in service tax free lump sum of 3 times salary;**
- **scope for a post-retirement lump sum death benefit, up to a maximum of 10 years;**
- **phased retirement arrangements which would allow LGPS members, under specified circumstances, to draw down some, or all, of their accrued pension rights from the scheme while still continuing to work;**
- **tiered employee contribution rates with 5.5% payable on the first £12,000 of pensionable pay, and 7.5% to be paid on the excess over £12,000, estimated on current membership to produce an average rate of 6.3%;**
- **a facility for Scheme members to purchase up to a maximum £5,000 of additional annual pension; and**
- **a facility for Scheme members to contribute towards their pension in conjunction with external AVC providers.**

Ill Health benefits

Consultees may find it helpful to have more details about the specific nature of the proposals for augmentation of membership when a member retires on grounds of ill health and which have been built into the costing profile of the consultation package.

There are now three proposed elements: -

- **For those Scheme members judged to be unable to perform local government employment duties but able immediately to undertake gainful employment – accrued rights only;**
- **For those unable to undertake gainful employment on cessation, but likely to be able to do so before normal retirement age – accrued rights and augmentation of 25% of prospective service to normal retirement age; and**
- **For those unable to undertake gainful employment before normal retirement age – accrued rights and augmentation of 50% of prospective service to normal retirement age**

In the consultation period, interested parties may wish to consider the elements proposed here, being mindful of the fact that any adjustments to any of the elements set out above will have a

direct effect on the cost of provision. Consultees may also have views on the most appropriate way of defining the term “gainful employment” in the LGPS Regulations 2007 which will set out the benefit structure.

More details will be forthcoming when the draft regulations are circulated next month as part of the consultation exercise, programmed to extend to the end of February 2007.

Scheme costings

Consultees will wish to know that the benefit consultation package has been reviewed in terms of existing members and new entrant members by the Government’s Actuary’s Department, using the same methodology as their benchmark costings for the Consultation Document. The draft regulatory impact analysis statement will provide full details of the costings but it may be helpful, initially, for Scheme interests to see at this point the headline costings for the changes to basic scheme benefits included within the above package. Savings achieved, following the rule of 85, have been factored into the exercise. The costings are as follows and provide an average existing member and new entrant employer benchmark cost of 13.2% (plus the cost of transitional protection post-2013).

	<u>Existing Members</u>	<u>New Entrants</u>
Total cost	20.5%	18.5%
Less Employee rate average	6.3%	6.3%
	<u>14.2%</u>	<u>12.2%</u>

These costing will provide a starting point from which consultees may choose to vary any of the benefit elements of the package now put forward for analysis and comment within the consultation period.

Protection arrangements for existing Scheme members

Within the new-look LGPS benefits package, arrangements will be provided which not only protect fully the accrued rights for all existing Scheme members, but also the protections provided in the current LGPS framework by the Local Government Pension Scheme (Amendment) (No 2) Regulations 2006 for eligible Scheme members, following the final removal of the rule of 85 from the Scheme with effect from 1 October 2006. The new factors to be used in cases of early payment pension from 1 October 2006 will also be kept under review to take account of potential further improvements in life expectancy.

Scheme Updates

Pension Changes is an information leaflet produced by Communities and Local Government and is now available to download from our website www.communities.gov.uk/lgps. To ensure as broad a response as possible from the membership, it would be helpful if the above link could be placed on all stakeholders’ own web pages.

Regular Scheme updates produced by the Department will be available via the new LGPS website. The site is designed to focus all relevant information regarding the new-look Scheme

in one easy-to-navigate location. The website features documents specific to the new-look Scheme, as well as offering the opportunity to register for publications and to take part in the interactive forum to be moderated by officials in LGFPS.

Policy Review Group

To assist in the on-going monitoring of the Scheme's regulatory and policy development, Ministers have agreed that a policy review group of key interested parties should be established to focus on strategic issues and establish common ground among stakeholders as a basis for co-operative decision-making on Scheme developments and future changes, changes in Scheme demographics and new cost-sharing arrangements. The work of the group will complement the substantial statutory and non-statutory consultation arrangements which already exist within the current regulatory framework for the Scheme. Arrangements to establish the Group will begin shortly.

One of the first issues the Group may wish to consider, as well as future cost-sharing mechanisms, is the policy development process surrounding the new Pensions Bill and, in particular, the relationship of State retirement age reforms to occupational schemes, such as the LGPS. It is important that the Scheme begins to deal with this issue rather than, as DWP has spelled out in connection with State benefits today, passing an unsustainable burden on the children and grand-children of current members.

Pension arrangements for elected members

There are no plans to amend the current arrangements, in the LGPS framework, which apply to elected members of local authorities in England and Wales.

Next Steps

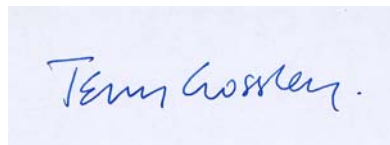
The new-look Scheme is programmed to be fully operational from 1 April 2008. To achieve this in a satisfactory and informed way, the Government's timetable and programme of reform requires the new regulations to be in place for 1 April 2007. Accordingly, draft regulations which will set out the proposed benefit package for the Scheme will be circulated next month to interested parties in England and Wales to reflect the terms of the Government's Statement, and will set out in more detail the actual draft regulatory framework seen as necessary to give full effect to the new Scheme. A draft regulatory impact analysis will accompany the draft regulations to explain the policy intentions of the proposals, their costs and benefits and other impacts.

These new benefit provisions will be followed by a separate set of draft regulations dealing with the administration and process aspects of the new Scheme and which have a similar implementation timetable. It is intended that these draft provisions will be considered in detail with interested parties during the consultation period. Arrangements will be made to begin that process in due course.

Contacts

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For enquiries on the proposed consultation exercise on new administration regulations please e-mail Margaret Dunleavy Margaret.Dunleavy@communities.gsi.gov.uk or telephone 020 7944 6012 in the first instance.

A rectangular area containing a handwritten signature in blue ink that reads "T B J Crossley".

T B J Crossley

**DEPARTMENT FOR COMMUNITIES AND LOCAL GOVERNMENT
LOCAL GOVERNMENT PENSION SCHEME**

The Minister for Local Government (Mr Phil Woolas): The Government's objective for Local Government Pension Scheme in England and Wales is to ensure it is viable, affordable to both Scheme members and employers, and fair to the taxpayers who ultimately provide its security.

The local government workforce, and the other employees who are eligible for Scheme membership, need access to a good quality pension scheme to provide for their retirement. All stakeholders believe the Scheme is an essential component of the reward strategies for local government's and certain associated employers' workforces. The Scheme, therefore, should be as flexible and accessible as possible, for both employees and employers, and provide a modern, equality-proofed range of defined benefits both now and in the future. It must meet the challenge of being attractive to existing and future employees, and to their employers, in and around local government. However, in meeting these objectives, an equitable and proportionate balance must be struck between the level of pension benefits provided by the Scheme, and the actual cost of providing those benefits.

Principles and propositions for the long term reform of the Scheme were first circulated to all Scheme stakeholders in October 2004. Subsequent regulatory amendments were made to the Scheme to reflect changes in taxation legislation, to improve its governance and deficit management, to achieve cost- stability linked to the outcome of the 2004 actuarial valuation exercise and to further the Government's objective of ending employment discrimination on grounds of age. A number of lawful and affordable protections for existing Scheme members were also introduced, linked to the final removal of an age discriminatory provision, the rule of 85, with effect from 1 October 2006.

To begin the final stages towards introducing, from 1 April 2008, a new-look Local Government Pension Scheme, a national consultation exercise, *Where Next? – Options for a new-look Local Government Pension Scheme in England and Wales*, took place between 30 June and 29 September this year. It invited stakeholders' views on four costed options - an updated current scheme with benefit improvements; a new final salary scheme with an improved accrual rate; a new career average scheme; and a new hybrid scheme combining a career average core with a final salary top-up option. A range of benefit structure changes was proposed, along with several propositions to address future Scheme costs, levels of contributions by both members and employers, greater benefit flexibility, new early retirement provisions and targeted ill health benefits.

Careful consideration has now been given to the outcome of that consultation exercise; the responses received have been helpful and informative. Some Scheme administering authorities, in particular, conducted helpful, detailed costing assessments of their position in relation to the range of options put forward. An analysis of the responses received to the consultation exercise has now been completed and is available at www.communities.gov.uk/lgps

Against that background, I am announcing that the Government's regulatory intentions for the future structure of the Local Government Pension Scheme's benefit package will be shortly circulated to interested parties for detailed analysis and comment. The consultation package will propose that the Scheme remains as a final salary pension arrangement and be based on an accrual of 1/60th of salary for each year of membership. It will continue to have a normal

pension age of 65, and will move towards providing, by 2010, for pensions to be paid no earlier than age 55, rather than the current minimum age of 50, except on grounds of ill-health. A revised and better targeted ill-health retirement package is to be proposed, and survivor benefits, which are available for spouses, civil partners, and children, will be extended to include other co-habiting partners. In order to help equality-proof the Scheme, tiered employee contribution rates, linked to salary, will be introduced, as well as more flexible retirement provisions. Arrangements will be included which protect the accrued rights of all existing Scheme members up to 31 March 2008. All present and future members of the Scheme will build up rights in the new-look Scheme from 1 April 2008. In addition, the protections already provided in the current Scheme for eligible members, at no cost to taxpayers, following the final removal of the rule of 85 from the Scheme, from 1 October 2006, will be retained.

The Government is mindful of the need to maintain stability of costs in the new-look Scheme and a fair and equitable balance in its long-term resourcing between members, employers and taxpayers. The Government's intention throughout this reform process has been to ensure that no additional costs are imposed on taxpayers. It is intended, therefore, to establish an appropriate mechanism for sharing future cost pressures and to have the arrangements in place by March 2009. These will both inform and take account of the 2010 actuarial valuation of the Scheme. The new arrangements can be taken into account when individual fund actuaries set new employer contribution rates in the valuations which will take effect from 1 April 2011. This important timetable will be reflected in the new Scheme regulatory framework programmed to take effect from 1 April 2008.

The package, as a whole, is both workable and affordable. Overall, it meets the balance of responses received to the recent consultation exercise and complies with the Government's central policy objectives for the Scheme's reform, particularly in terms of its viability, affordability and fairness to members and taxpayers.

To assist in the on-going monitoring of the Scheme's regulatory and policy development, Communities and Local Government will establish a policy review group of key interested parties. The group will focus on strategic issues, establish common ground between stakeholders and to monitor demographic experience in the Scheme as a basis for co-operative decision-making on Scheme developments, regulatory changes and Scheme cost-sharing. The work of the group will be reported regularly to Ministers and will complement the usual statutory and non-statutory consultation arrangements which already exist within the current regulatory framework of the Scheme.

For the new-look Scheme to be fully available and operational for all categories of members and prospective members, from 1 April 2008, the Government's timetable and programme of reform requires regulations to be in place for 1 April 2007. Accordingly, draft regulations which set out in detail the proposed benefit package for the new Scheme will be circulated next month to interested parties in England and Wales to reflect the terms of this statement, as well as setting out the actual regulatory framework necessary to give full effect to the new Scheme. This will allow the terms of the new arrangements to be taken into account as part of the 2007 actuarial valuation exercise. As a first step in the consultation process, further details of the proposed new-look Scheme regulatory framework and this statement are being circulated to interested parties in England and Wales today as part of the required statutory consultation process.

In addition, these regulations will be followed shortly by associated draft regulatory changes in a separate draft statutory instrument, dealing with the administration aspects of the new Scheme and to a similar implementation timetable.