

Governance Policy Statement

THE LOCAL GOVERNMENT PENSION SCHEME (AMENDMENT) (NO. 2) REGULATIONS 2005

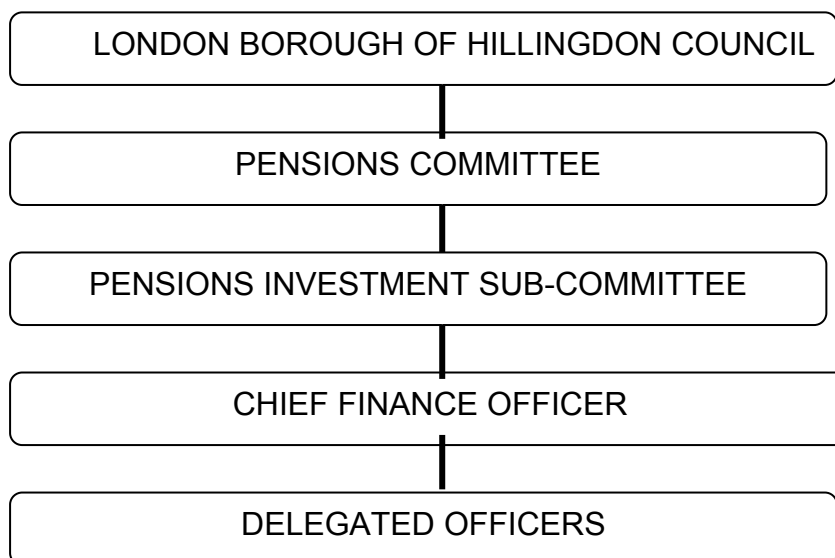
Issued by: Pension Section, Finance and Property Department

Authorised by: Pensions Committee September 2012

Under the terms of the above regulations, which came into force on 14th December 2005, the Council must publish a Governance Policy Statement not later the 1st April 2006, Statement revised September 2012.

CONSTITUTION

The Constitution of the Council sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and that those who made the decisions are accountable to local people. The Constitution sets out the framework under which the Pension Fund is to be administered as shown in the diagram below.



The Constitution allows for the appointment of a Pensions Committee and a Pensions Investment Sub-Committee, which have the following Terms of Reference:

PENSIONS COMMITTEE

Membership

Councillor membership of the Committee will be politically balanced and have voting rights. Other members of the Committee do not have voting rights and will include 2 Trade Union members and 2 Non-Trade Union Scheme Members (1 Non-active Member and 1 active Member)

Terms of Reference

1. To review and approve all aspects of investment policy relating to the Pensions Fund, including authorisation or prohibition of particular investment activities.
2. To review the Statement of Investment Principles and amend it when necessary.
3. To agree benchmarks and performance targets for the investment of the Fund's assets and review periodically.
4. To keep the performance of the investment managers under regular review and extend or terminate their contracts as required. To appoint new managers when necessary.
5. To agree policy guidelines for the exercise of voting rights attached to the Fund's shares.
6. To review the appointment of specialist advisors and service providers and make new appointments as necessary.
7. To consider the overall implications of the Council's policies for employment and benefits issues and their impact on the Pension Fund and agree any strategic changes.
8. To authorise the admission of other bodies to the Fund.
9. To approve the appointment of persons to hear appeals under the Internal Dispute Resolution Procedure.
10. To consider issues concerning the administration of the Fund, including approving responses to consultation papers.
11. To consider and decide whether to approve proposals for discretionary enhanced early retirement packages for officers.

PENSIONS INVESTMENT SUB-COMMITTEE

Introduction

To discharge the functions of the Pensions Committee aimed at improving market governance across the Pension Fund and the operational effectiveness of Investment Strategy.

Membership

Membership of the Sub-Committee will consist of 3 Councillors from the Pensions Committee, politically balanced. The quorum for attendance will be 2 Councillors. In addition, the Independent Adviser and Investment Consultant would normally attend meetings along with relevant officers.

Terms of Reference

1. To maintain a business plan for its activity and evaluates progress against this plan.
2. To monitor financial risks, including all investment risks relative to liabilities, within the Pension Committee's risk framework, and reports any issues or breaches to the Pension Committee.
3. To keep asset allocation under review within range guidelines set by the Pension Committee. Within these range guidelines, the Sub-Committee has delegated authority to:
 - Increase or decrease the allocation to equities, bonds or property
 - Increase or decrease the amounts / proportions of assets in manager mandates
 - Increase or decrease the level of currency hedging in place
 - Select investments for, or dispose of existing investments in, the "opportunity fund" (10% of assets), using the feeder fund.
4. To consider the framework for the allocation of new money among managers. Similarly, in the event that assets need to be realised, the Sub-Committee also considers this matter.
5. To formally review annually the mandates of the managers, and their adherence to their expected investment process and style. This ensures that the explicit written mandate of each of the Fund's managers is consistent with the Fund's overall objective and is appropriately defined in terms of performance target, risk parameters and timescale.
6. To consider the need for any changes to the investment managers' mandates (e.g. in relation to continuing appropriateness of benchmarks and operating guidelines).

7. To consider the need for any changes to the Fund's investment manager arrangements (e.g. replacement, addition, termination) and makes recommendations to the Pension Committee.
8. In the event of a proposed change of managers, to evaluate the credentials of potential managers. To make recommendations to the Pension Committee in respect of any change of managers.
9. To monitor the investment advice from their investment consultant and investment adviser at least annually. To also review their own decision making process at the same time.
10. To be responsible for maintenance of the Fund's Statement of investment Principles (SIP)
11. To carry out any additional tasks delegated to it by the Pension Committee.

The Sub-Committee keeps asset allocation within guidelines set by the Pension Committee. Within these guidelines, the Sub-Committee has delegated authority to

- Increase or decrease the allocation to equities, bonds or property
- Increase or decrease the amounts / proportions of assets in manager mandates
- Increase or decrease the level of currency hedging in place

Dates and Place of Meetings

The Council shall fix the day of the meetings of the Pensions Committee and the ordinary meetings for the Pensions Committee shall be at Hillingdon Civic Centre, but they may arrange to meet elsewhere when they think fit. The Chair may cancel meetings. The Pensions Committee meets every quarter and the dates are arranged annually in advance. The Chairman of the Committee may call a special meeting if required.

Access to Agenda, Reports and Minutes of Meetings

The Council will give at least seven clear working days notice of any meeting by posting details of the meeting at the Hillingdon Civic Centre and on the Council's website. The Council will make copies of the agenda and reports open to the public available for inspection at least five clear working days before the meeting. If an item is added to the agenda later, the revised agenda will be open to inspection from the time the item was added to the agenda. The reason for lateness will be specified in the report. There may on occasions be items, which may be exempt from the agenda, reports and minutes of the meetings when it is likely in view of the nature of the business to be transacted or the nature of the proceedings that confidential information would be disclosed. Items which are most likely to be excluded are issues where to disclose information would contravene an individual's privacy or where there are financial interests which may be compromised as a result of disclosure for example discussions surrounding contracts. The Council will make available copies of the minutes of the meeting and records of decisions taken. Minutes of meetings and records of decisions are available for inspection on the Council's website.

FUNDING STRATEGY STATEMENT

The Funding Strategy Statement forms part of the framework for the funding and management of the Pension Fund. It sets out how the Fund will approach the funding of its liabilities and contains a schedule of the minimum contribution rates that are required of individual employers within the Fund. The Funding Strategy Statement was formally approved by the Pensions Committee on 12th March 2008. The Funding Strategy Statement (FSS) is published and has been issued to interested parties. The FSS is drawn up by the Administering Authority in collaboration with the Fund's actuary and after consultation with the Fund's employers. The FSS forms part of a broader framework which covers the Pension Fund and applies to all employers participating in the Fund. The FSS represents a summary of the Fund's approach to funding liabilities of the Pension Fund and copies are available from the Financial Planning Section, Central Services Directorate or on the Council's website.

The department for Community and Local Government (CLG) has stated that the purpose of the FSS is:

- to establish a clear and transparent fund-specific strategy, which will identify how employers' pension liabilities are best, met going forward.
- To support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and
- To take a prudent longer-term view of funding those liabilities.

It is in this context that the FSS has been compiled and sets out in detail the Fund's approach to meeting its individual funding requirements. The FSS is reviewed in detail at least every three years, with the next full review due to be completed by 31st March 2014.

STATEMENT OF INVESTMENT PRINCIPLES

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1998 require pension fund administering authorities to prepare, maintain and publish a statement of the principles governing their decisions on the investment of the pension fund. The Local Government Pensions Scheme (Management and Investment of Funds) (Amendment) Regulations 2002 require pension fund administering authorities to state the extent to which they comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom. Under Regulation 9A (3A) of the LGPS (Management and Investment of Funds) Regulations 1998 the Council is required to state the extent to which it complies with the ten principles of investment practice issued by the Government in October 2001 in response to the recommendations of the Review of Institutional Investment in the UK undertaken by Paul Myners. Compliance with these principles is set out in detail in the Appendix to the Statement of Investment Principles (SOIP) and the Fund is fully compliant with 5 out of the 10 principles. Work is in progress with the intention of being compliant with the remaining 5 and the reasons for not being fully compliant are set out in the SOIP. The SOIP was formally reviewed by the Pensions Committee and approved

for publication in September 2007 and is reviewed annually or when significant changes occur that require incorporation in the document.

SCHEME OF DELEGATION

Where Council functions are not specifically reserved to the Pensions Committee in relation to the Pension Fund, the functions are deemed to be delegated to the relevant Chief Officers, or the Chief Finance Officer in the case of the Pension Fund. The Chief Finance Officer is responsible for the establishment of a scheme of delegation for their department which includes the Pension Fund function. The scheme of delegation specifies the function, names the post which may carry out that delegated decision and the limits if any on the delegation. The limits on delegation may include the obligation to consult record and/or refer back to the Chief Executive or Chief Finance Officer in certain circumstances. The Central Services Directorate has a scheme of delegation which sets out the delegated powers to individual officers within the directorate. In relation to the Pension Fund the management is delegated to the Chief Finance Officer and the Financial Planning Manager. The scheme of delegation is reviewed approximately every six months by the Council.

STANDING ORDERS

Section 151 of the Local Government Act 1972 requires every local authority to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has responsibility for this. In Hillingdon the responsible officer is the Chief Finance Officer under the terms of Standing Order 76. Guidance on general financial procedures outline the regulatory framework for financial administration within the Council setting out the duties of the Chief Finance Officer and Chief Officers and identifying the financial decisions which require Executive or Council approval. The Chief Finance Officer Services is responsible for ensuring that the Council's financial affairs are administered in a proper manner, in accordance with all statutory obligations, and in compliance with all professional codes of practice. In particular he is responsible for making arrangements for the investment of Council monies, the security of any stock or share certificate or similar documents and the realisation of any investments.