



Report to:	Pension Committee	Date:	18 December 2017
Report title:	Independent Advisor		
Report from:	Gerald Almeroth, Strategic Director - Resources		
Ward/Areas affected:	Borough Wide		
Chair of Committee/Lead Member:	Councillor Sunita Gordon		
Author(s)/Contact Number(s):	Ian Talbot, Investments, Insurance & Commercial Manager, 020 8770 5016 Lyndsey Gamble, Head of Investment, Risk and Commercial Finance -Resources, 020 8770 5358		
Corporate Plan Priorities:	<ul style="list-style-type: none"> • A Smart Council 		
Open/Exempt:	Open		
Signed:		Date:	06 December 2017

1. Summary

- 1.1 This report advises the Committee of the recommendation of Mr John Raisin In his report entitled "A review of the Governance arrangements relating to the London Borough of Sutton Pension Scheme" that they consider "the appointment of an Independent Advisor with a broad remit across areas of responsibility of the Committee."

2. Recommendation

The Pension Committee is recommended to:

- 2.1 Agree not to engage an independent advisor at this time.

3. Background

- 3.1 Over the last few years, in various contexts, the Committee have been advised of the regulatory requirement that, in carrying out many of their functions, they must consider proper advice.



- 3.2 In his report entitled “A review of the Governance arrangements relating to the London Borough of Sutton Pension Scheme” Mr John Raisin summarised the statutory position as follows:

“Regulation 11(5) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (As amended) states “*The authority must obtain proper advice at reasonable intervals about its investments*” and Regulation 11(6) then states “*The authority must consider such advice in taking any steps in relation to its investments.*” Regulation 7(1) of the (Draft) Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires Funds prepare an Investment Strategy “*after taking proper advice.*” To comply with Regulations 62 and 64 of the LGPS Regulations 2013 (As amended) each Pension Fund is required to appoint a Fund Actuary.”

- 3.3 The Fund employs the services of Barnett Waddingham as Fund Actuary and Hymans Robertson as Investment Advisor. Barnett Waddingham provide the full range of services required of the Fund Actuary including regular briefings in relation to the valuations of the Fund. An investment consultant from Hymans Robertson attends all meetings of the Committee and provides training at each meeting normally in respect of investment issues. Mr Raisin expresses his view that the Committee is also well supported by a diverse team of officers.

- 3.4 Notwithstanding the support provided to the Committee Mr Raisin comments:

“The responsibilities of the Pension Committee however extend well beyond investment and actuarial/funding related issue though both are clearly of crucial importance. Pensions Administration is also of crucial importance as is the consideration and approval of Policies and Strategies required or advised by Regulation, Statutory Guidance or CIPFA recommended practice. Business Planning and Risk Management are of fundamental importance.”

He further comments:

“The remit of the Pension Committee is however extremely broad and the already highly complex LGPS is continuing to change at a rapid pace. Therefore it is not unusual for Pension Committees to appoint an Independent Advisor. In most cases this is an Independent Advisor who focuses primarily or solely on Investment issues. Some Independent Advisor roles are, however, broad in their remit covering issues such as Governance in its widest sense, Investment and Training.

“The appointment of an Independent Advisor with a sole or primary focus on Investment would widen the perspectives and advice available to the Committee and in particular provide another external view. Given, however,



the breadth of investment advice already available to the Committee from the Officers and Hymans Robertson this approach though beneficial would not appear the best approach to the appointment of an Independent Advisor particularly given the other extensive responsibilities of the Committee.

3.5 Mr Raisin's conclusion and recommendation is as follows:

“Given the breadth of the Pension Committee's responsibilities it would appear that the appointment of an Independent Advisor who can provide not only an additional Investment perspective but perhaps more importantly provide advice and support across issues such as Business Planning, Risk Management, regulatory issues including the preparation of Fund Statements and Policies, developments in the LGPS, responses to consultations, Pensions Administration issues and a broad range of Training in accordance with the CIPFA Pensions Knowledge and Skills training frameworks would be potentially clearly advantageous in terms of the advice and support available to the Pension Committee. Therefore I would **recommend** that the Pension Committee considers the appointment of an Independent Advisor with a broad remit across areas of responsibility of the Committee.”

4. Proposal

4.1 Research carried out by officers suggests that a substantial number of LGPS administering authorities employ at least one independent advisor. A recent report produced by Hymans Robertson discusses the results of a survey of 19 independent advisors who, between them advise over 50% of funds by value. This also suggests that a significant number of funds do not engage independent advisors.

4.2 Clearly there is a substantial body of opinion, including that held by Mr Raisin, that the appointment of an independent advisor could be beneficial to the Fund.

4.3 The perceived benefits of appointing an Independent Advisor, depending on the contract and fee, would appear to be that:

- it could widen the perspectives and advice available to the Committee in respect of investment issues without the constraints of a “house” view;
- it could provide additional advice on other responsibilities of the Committee;
- it could provide an additional source of challenge on behalf of the Committee to fund managers, professional advisors and officers.

4.4 Perceived disbenefits could be that:

- there could be confusion over advice, particularly that given in an ad hoc way at Committee meetings rather than in written reports;
- there could be confusion with officer role;

- uncertainty over the cost vs the benefit.

- 4.5 The Fund's current investment strategy was implemented in 2012 and, up to 31 September 2017, has been in operation for 57 months. Prior to the implementation of the new strategy, the Fund underperformed the benchmark by 1.6% over the previous 57 months (benchmark 5.2%, actual 3.6%). For the 57 months after the new strategy was implemented the Fund outperformed the benchmark by 0.6% (benchmark 9.9%, actual 10.5%), in overall terms an improvement of 2.2%.
- 4.6 Between the last two formal triennial valuations the funding level of the Fund increased from 67% (31 March 2013) to 80% (31 March 2016). Since March 2016 the Actuary has carried out several interim valuations and calculates that, at 31 October 2017, the funding level had further increased to 88%.
- 4.7 It is very difficult to allocate with certainty responsibility for success or failure to particular advice and even less to try to evaluate what might have resulted had other advice been available. Nevertheless, the statistics suggest that the Fund has been well served by its advisors and officers over recent years. Committee members have, on a number of occasions, expressed their appreciation of the advice they have been given.
- 4.8 In addition to the investment work of the Committee, in his conclusion to his report Mr Raisin commented:
- “Overall this review has confirmed that the role of the Pension Committee meets the requirements of Regulation and Statutory Guidance and identified an overall good level of Governance of the Fund and positive decision making by the Pension Committee”
- 4.9 The Committee have accepted all of Mr Raisin's recommendations and agreed an action plan for their implementation. For the reasons given above, as regards the appointment of an Independent Advisor. the Committee are recommended to take no action at this stage.

5. Impacts and Implications

Financial

- 5.1 There are no direct financial implications addressed within the report but were an Independent Advisor to be appointed with the wide remit suggested the annual cost is likely to be of the order of £20,000.

Legal

- 5.2 There are no legal issues arising from this report.



6. Appendices and Background Documents

Appendix Letter	Title
	None

Background Documents

A review of the Governance arrangements relating to the London Borough of Sutton Pension Scheme - John Raisin Financial Services Limited 10 June 2016

Audit Trail

Version	Final	Date: 5 December 2017
Consultation with other officers		
Officer	Comments Sought	Comments checked by
Finance	Yes	Lyndsey Gamble
Legal	No	N/A
Equality Impact Assessment required?	No	N/A

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