

PENSIONS COMMITTEE SUPPLEMENTARY AGENDA

24 September 2013

The following report is attached for consideration and is submitted with the agreement of the Chairman as an urgent matter pursuant to Section 100B (4) of the Local Government Act 1972

7 PENSION FUND ACCOUNTS 2012/13 (Pages 1 - 22)

Final accounts attached.

8 REPORT TO THOSE CHARGED WITH GOVERNANCE - INTERNATIONAL STANDARD OF AUDITING (ISA) 260 (Pages 23 - 36)

ISA report, including response.

**Andrew Beesley
Committee Administration
Manager**

This page is intentionally left blank

Pension Fund

Introduction

The Havering Pension Fund is part of the Local Government Pension Scheme and is administered by the London Borough of Havering. Responsibility for management of the Pension Fund has been delegated to the Pensions Committee and the day to day operations of the fund have been delegated to the Group Director Finance and Commerce.

The following description of the scheme is a summary only. For more details on the operation of the pension fund, reference should be made to the Havering Pension Fund Annual Report 2012/13 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

The pension fund is a contributory final salary scheme and operates as a funded, defined benefits scheme which provides benefits for employees (excluding teachers) which include retirement pensions, spouse, civil partners and children's pensions, death grants and other lump sum payments.

The Fund is financed by contributions from employees, employers and from profits, interest and dividends on its investments.

Employers in the Fund

Organisations participating in the fund include:

Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.

Admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

Designated bodies, which are non-community schools, whose employer has changed from the authority to a Board of Governors. Designated body status allows continued membership in the LGPS for non-teaching staff at non community schools.

During 2012/13 four schools converted to Academies and Innovate and Family Mosaic were admitted as new employers to the fund. Homes in Havering were brought back under the authorities control so ceased as a scheduled body. Morrison's were taken over by the Mears Group.

The other employers in the Pension Fund are as follows:

Scheduled Bodies:

Havering College of Further Education
Havering Sixth Form College
Homes in Havering (ceased 31 October 2012)

Secondary Schools

Drapers Academy (Academy from 1 September 2010)
Abbs Cross School (Academy from 1 April 2011)
Brittons School & Technology College (Academy from 1 April 2011)
Coopers' Company & Coborn School (Academy from 1 April 11)
The Albany School (Academy from 1 August 2011)
Campion School (Academy from 1 August 2011)
Hall Mead Secondary School (Academy from 1 August 2011)
Sacred Heart of Mary's Girl's School (Academy from 1 August 2011)
St Edwards CE Secondary Comprehensive (Academy from 1 August 2011)
Emerson Park (Academy from 1 September 2011)
Redden Court (Academy from 1 September 2011)
Frances Bardsley School for Girls (Academy from 1 July 2012)
Bower Park (Academy from 1 February 2013)

Primary School

Upminster Junior School (Academy from 1 November 2012)
Upminster Infant School (Academy from 1 November 2012)

Admitted Bodies:

Havering Citizens Advice Bureau
Mears (November 12 – took over Morrison's)
Sports & Leisure Management Ltd
KGB Cleaners
Volker (joined 1 November 2011- Replaced May Gurney)
Innovate (joined 1 August 2012)
Family Mosaic (joined 1 November 2012)

Designated Bodies:

Trust Schools

Corbets Tey Special School

Foundation Schools

Marshall Park (Foundation from 1 September 2011)
Royal Liberty
The Chafford School
The Sanders Draper School
The Mawney Primary School

Voluntary Aided Schools

St Alban's Catholic Primary
St Edwards CE Primary
St Joseph's RC Primary
St Mary's RC Primary
St Patrick's Catholic Primary School
St Peter's Catholic Primary School
St Ursula's RC Junior School
St Ursula's RC Infant School
La Salette RC Primary School

LONDON BOROUGH OF HAVERING STATEMENT OF ACCOUNTS 2012- 2013

Membership

The membership of the Pension Fund is as follows:

	As at 31st March 2013	As at 31st March 2012
Contributors		
Havering	4,501	4,629
Scheduled bodies	1,085	1,153
Admitted bodies	169	96
Contributor Total	5,755	5,878
Deferred pensioners:		
Havering	4,178	3,930
Scheduled bodies	483	435
Admitted bodies	41	40
Deferred Total	4,702	4,405
Pensioners and Dependants:		
Havering	5,204	5,000
Scheduled bodies	204	211
Admitted bodies	45	42
Pensioners & Dependants Total	5,453	5,253
TOTAL	15,910	15,536

Investment Arrangements

The overall direction of the Fund's Investment Strategy is delegated to the Council's Pensions Committee. The Pensions Committee also oversees the Fund's investment arrangements and publishes a Statement of Investment Principles (SIP) on the Council's website in accordance with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2005.

In September 2010 the Pensions Committee decided to terminate the mandate with the Global Equities Manager (Alliance Bernstein) and assets were placed with the Passive Equity Manager (State Street Global Assets) until a new Global Equity Manager was appointed. Baillie Gifford was awarded the mandate for Global equities in December 2011; assets were transferred from UK Equities (Standard Life), Investment Grade Bonds (Royal London) and the passive UK/Global Equities (State Street Global assets) managers. Baillie Gifford commenced trading in April 2012. A review of the Fund's investment strategy was undertaken during 2012 and the allocation to the Absolute Return Manager (Ruffer) was increased, funded by reducing the allocation to the Passive UK/Global Equities Manager (State Street Global Assets).

The Fund's property manager (UBS) served a liquidation notice on the fund on the 1 January 2013; this was due to the increase in a number of redemption requests from the fund. The liquidation request was revoked in June 2013 when UBS received new investments from three UK Pension Fund and some existing clients withdrew redemption requests.

Further strategy implementation (including rebalancing) will be undertaken during 2013/14.

The fund managers and the market value of assets under their management as at 31 March 2013 were as follows:

Value 31 March 2012		Manager	Mandate	Value 31 March 2013	
£'000	%			£'000	%
90,178	22.4	Standard Life	UK Equities	85,693	18.7
104,182	25.9	Royal London	Investment Grade Bonds	98,302	21.5
26,654	6.6	UBS	Property	22,471	4.9
39,146	9.8	Ruffer	Absolute Return	64,531	14.1
142,116	35.3	State Street Global Assets	Passive UK/Global Equities	109,991	24.1
21	0	Alliance Bernstein	Global Equities	0	0
0	0	Baillie Gifford	Pooled Global Equities	76,297	16.7
22	0	Other		48	0
402,319	100.0	Total Fund		457,333	100

The main investment objective is to maximise the overall return on the Pension Fund's investments from income and capital appreciation without high risk. Also, to maintain the ready marketability of the portfolio to meet the Fund's fluctuating cash requirements.

Performance

Havering Pension Fund uses the services of The WM Company to provide comparative statistics on the performance of this Fund. The performance of the Fund is measured against a tactical and a strategic benchmark. The tactical benchmark is a combination of all the individual benchmarks set for each manager. The strategic benchmark for the overall fund is a liability benchmark of FTSE A Gilts over 15 years plus 2.9% (net of fees) p.a. The main factor in meeting the strategic benchmark is market performance.

In 2012/13, the overall return on the Fund's investments was 14.4% (2011/12 4.2%). This represented an over performance of 1.1% against the tactical benchmark (2011/12 underperformance of -0.6%) and an over performance of 2.9% against the strategic benchmark (2011/12 underperformance -16.9%).

The longer term performance is as follows:

	3 years to 31.3.13 %	5 years to 31.3.13 %
Fund return	8.2	5.6
Tactical Benchmark	8.8	7.1
Performance	-0.5	-1.4
Fund return	8.2	5.6
Strategic benchmark	15.3	12.0
Performance	-6.1	-5.7

A geometric method of calculation has been used in the above and consequently this does not sum

Pension Fund Account for the year ended 31st March 2013

2011/12 £'000		Note	2012/13 £'000
Contributions and benefits			
30,286	Contributions	3	30,222
2,637	Transfers in from other pension funds	4	3,706
32,923			33,928
(31,215)	Benefits	5	(31,272)
(2,581)	Payments to and on account of leavers	6	(2,423)
(586)	Administration expenses	7	(632)
(34,382)			(34,327)
(1,459)	Net additions / (withdrawals) from dealings with members		(399)
Returns on Investments			
(1,138)	Investment Management Expenses	8	(1,147)
8,360	Investment income	9	9,518
9,108	Profit and losses on disposal of investments and changes in the market value of investments	10	49,098
16,330	Net returns on investments		57,469
14,871	Net Increase in the net assets available for benefits during the year		57,070
388,634	Net assets of the Fund at start of year		403,505
403,505	Net assets of the Fund at end of year		460,575

Net Asset Statement as at 31 March			
2012 £'000		Note	2013 £'000
406,792	Investment Assets	11	459,162
(4,473)	Investment Liabilities	11	(1,829)
1,695	Current Assets	12	3,709
(509)	Current Liabilities	13	(467)
403,505	Net assets of the fund available to fund benefits at end of the year		460,575

The financial statements summarise the transactions of the Fund and the net assets of the Fund. They do not take account of obligations to pay pensions and other benefits which fall due after the financial year end. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard IAS19 basis is disclosed at Note 20 of these accounts.

Notes to the Pension Fund

1. Basis of Preparation

The Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting 2012/13 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

2. Summary of Significant Accounting Policies

Fund Account - Income

(a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate. This is then broken down to show the amount allocated for the deficit funding (past service costs).

Pension strain contributions (augmentation) are accounted for in the period in which the liability arises.

(b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see notes 4 and 6)

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

(c) Investment Income

i) Interest income

Interest income is recognised in the fund as it accrues.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted as ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as an Investment asset.

iii) Distribution from pooled funds

Distributions from pooled funds are recognised at the date of issue.

iv) Property-related income

Property related income consists primarily of rental income and are recognised at the date of issue.

v) Movement in the net market value of investments

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund Account – expense items

(d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts unpaid are disclosed in the net assets statement as current liabilities.

(e) Taxation

The fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

(f) Administrative expenses

All administrative expenses are accounted for on an accruals basis. The majority of staff costs of the pensions administration team have been charged to the scheme. Management, accommodation and other overheads are apportioned to the fund in accordance with Council policy.

(g) Investment management expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

The cost of obtaining investment advice from external consultants is included in investment management charges.

For officers' time spent on investment management functions; a proportion of the relevant officers' salary costs have also been charged to the Fund.

Net Assets Statement**(h) Financial assets**

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of assets are recognised by the fund.

The values of investments as shown in the net assets statement have been determined as follows:

(i) Market-quoted investments

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

(ii) Fixed interest securities

Fixed interest securities are recorded at net market value based on their current yields.

(iii) Unquoted investments

The fair value of investments for which market quotations are not readily available is determined as follows:

- Investments in private equity funds are valued on the fund's share of the net assets in the private equity fund.

(iv) Pooled investment vehicles

Pooled investment vehicles are valued at closing bid price if both the bid and offer prices are published; or if single priced, at the closing single price.

(i) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period

(j) Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in the change in market value.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract was matched at the year-end with an equal and opposite contract.

(k) Cash and cash equivalents

Cash comprises cash in hand.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

(l) Financial Liabilities

The fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

(m) Actuarial present value of promised retirement benefits

The actuarial present value of promised benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards.

(n) Additional Voluntary contributions

AVC's are not included in the accounts in accordance with section 492) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 3)

Stock Lending

We do not carry out stock lending directly. We are investors of a pooled fund with the passive equity manager, State Street Global Assets, who carry out stock lending as part of the funds activities. It is not possible to allocate a share of the stock lending activity to individual fund members. The lending programme is managed by State Street Securities Finance (SSSF), a division of State Street's Global Markets area. At present, lending is collateralised by non-cash collateral and marked to market on a daily basis. Revenue generated from securities is allocated 60% to the pooled fund in respect of investors and 40% to State Street, which pays all costs associated with the lending programme

3. Contributions

	2012/13 £'000	2011/12 £'000
Employers		
Normal:		
Havering	11,053	11,322
Scheduled Bodies	3,519	3,421
Admitted Bodies	572	541
Deficit funding:		
Havering	8,647	6,994
Augmentation:		
Havering	204	1,083
Scheduled Bodies	19	63
Admitted Bodies	0	499
Employer Total	24,014	23,923
Members		
Normal:		
Havering	4,870	5,029
Scheduled bodies	1,094	1,060
Admitted bodies	161	150
Additional contributions:		
Havering	66	96
Scheduled bodies	16	27
Admitted bodies	1	1
Members Total	6,208	6,363
	30,222	30,286

Note: Some employees made additional voluntary contributions (AVC's) of £64,785 (£80,030 11/12) excluded from these statements. These are deducted from the payroll and forwarded to the stakeholder pension schemes provided by the Prudential and Standard Life. The amounts forwarded during 2012/13 were £54,571 to the Prudential and £10,214 to Standard Life.

4. Transfers in from other pension funds

	2012/13 £'000	2011/12 £'000
Individual transfers in from other schemes	3,706	2,637

5. Benefits

	2012/13 £'000	2011/12 £'000
Pensions		
Havering	23,675	22,274
Scheduled Bodies	641	483
Admitted Bodies	384	278
Pension Total	24,700	23,035
Commutation & Lump Sum Retirements		
Havering	4,784	5,773
Scheduled Bodies	339	562
Admitted Bodies	178	868
Commutation Total	5,301	7,203
Lump sum death benefits		
Havering	1,093	610
Scheduled Bodies	102	270
Admitted Bodies	76	97
Death Benefits Total	1,271	977
	31,272	31,215

6. Payments To and On Account of leavers

	2012/13 £'000	2011/12 £'000
Refunds to members leaving service	1	2
Individual transfers to other schemes	2,422	2,579
	2,423	2,581

7. Administrative Expenses

	2012/13 £'000	2011/12 £'000
Administration & Processing	566	522
Actuarial Fees	30	9
Audit Fees	21	35
Other Fees & Expenses	15	20
	632	586

8. Investment management expenses

	2012/13 £'000	2011/12 £'000
Administration, management and custody	1,063	1,053
Performance measurement services	12	12
Other Advisory Fees	72	73
	1,147	1,138

9. Investment Income

	2012/13 £'000	2011/12 £'000
Equity dividend	3,362	3,700
Fixed Interest securities	**3,663	*4,137
Pooled property income	1,421	1,260
Foreign Exchange Profits/(Losses)	978	(791)
Interest on Cash & Deposits	12	54
Other income	82	0
Total Income	9,518	8,360

* Income includes Index linked Interest of £532k

** Income includes index Linked Interest of £404k

10 (a). Reconciliation of movements in investments & derivatives 2012/13

	Market Value at 31st March 2012 £'000	Purchases during the year and derivative payments £'000	Sales during the year and derivative receipts £'000	Change in Market Value during the year £'000	Cash & Other Movements £'000	Market Value at 31st March 2013 £'000
Equities	104,209	92,538	(69,656)	11,644	(31,334)	107,401
Fixed interest Securities	70,854	75,981	(85,351)	5,491	(1,469)	65,506
Index-linked Securities	46,660	173,141	(172,307)	4,578	1,469	53,541
Pooled Investment Vehicles	175,456	7,787	(922)	28,284	12,391	222,996
Derivatives	516	-	-	(903)	-	(387)
Cash instruments	673	9,452	(9,070)	-	-	1,055
Cash deposits (fund managers)	3,231	-	-	-	2,488	5,719
	401,599	358,899	(337,306)	49,094	(16,455)	455,831
Other Investment Balances	720	-	-	4	778	1,502
	402,319	358,899	(337,306)	49,098	(15,677)	457,333

10 (b). Reconciliation of movements in investments & derivatives 2011/12

	Market Value at 31st March 2011	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Cash & Other Movements	Market Value at 31st March 2012
	£'000	£'000	£'000	£'000	£'000	£'000
Equities	96,138	38,337	(24,975)	(5,291)	-	104,209
Fixed interest Securities	76,134	103,666	(111,287)	5,201	(2,860)	70,854
Index-linked Securities	37,255	279,301	(281,406)	8,650	2,860	46,660
Pooled Investment Vehicles	165,765	12,325	(2,516)	(118)	-	175,456
Derivatives	(164)	-	-	680	-	516
Cash instruments	-	8,867	(8,194)	-	-	673
Cash deposits (fund managers)	2,655	-	-	-	576	3,231
	377,783	442,496	(428,378)	9,122	576	401,599
Short term investments	8,495	-	-	-	(8,495)	-
Other Investment Balances	2,243	-	-	(14)	(1,509)	720
	388,521	442,496	(428,378)	9,108	(9,428)	402,319

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

The cash and other movements include assets that were transferred between fund managers as part of the investment restructuring.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year as supplied by the Fund's custodian amounted to £318,000 (2011/12 £201,591). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

11. Analysis of investments

	2012/13 £'000	2011/12 £'000
Investment Assets		
Equities		
UK Quoted	89,525	91,511
Overseas quoted	17,876	12,698
	107,401	104,209
Fixed Interest Securities		
UK Public sector	7,512	9,716
UK Private (corporate)	56,197	59,671
Overseas Public sector	1,797	1,467
	65,506	70,854
Index-Linked Securities		
UK Public sector	40,681	36,887
UK Private (corporate)	660	575
Overseas Public sector	12,200	9,198
	53,541	46,660
Derivative Contracts		
Forward FX Contracts	130	539
	130	539
Pooled Investment Vehicles		
UK Managed Funds		
UK Quoted	199,566	147,750
UK Unquoted	20	22
Overseas	620	1,111
Property	1,248	981
UK Unit Trust		
UK Property	21,542	25,592
	222,996	175,456
Cash Instruments		
UK	1,055	673
	1,055	673
Cash Deposits		
Managers	5,719	3,231
	5,719	3,231
Outstanding Sales	816	3,004
Investment Income	1,160	1,325
Outstanding dividend and recoverable withholding tax	836	841
Investment Income due	2	0
	2,814	5,170
Total Investment Assets	459,162	406,792

11. Analysis of investments (Cont'd)

	2012/13 £'000	2011/12 £'000
Investment Liabilities		
Derivative Contracts		
Forward FX Contracts	(517)	(23)
Outstanding purchases	(1,312)	(4,448)
Investment Income Due		(2)
Total Investment Liabilities	(1,829)	(4,473)
Total Net Investments	457,333	402,319

12. Current Assets

	2012/13 £'000	2011/12 £'000
Pension Grants	9	13
Contributions due from Employers	168	378
Contributions due from members	58	109
Cash deposit with LB Havering	3,474	1,195
Current Assets	3,709	1,695

Analysis of Debtors

	2012/13 £'000	2011/12 £'000
NHS bodies	9	13
Public corporation and trading funds	168	378
Other entities and individuals	58	109
LB Havering	3,474	1,195
Total	3,709	1,695

13. Current Liabilities

	2012/13 £'000	2011/12 £'000
Unpaid Benefits	(166)	(178)
Accrued Expenses	(301)	(331)
Current Liabilities	(467)	(509)

Analysis of Creditors

	2012/13 £'000	2011/12 £'000
Other entities and individuals	(467)	(509)
Total	(467)	(509)

Analysis of derivatives**Objectives and policies for holding derivatives**

Most of the holdings in derivatives are to hedge liabilities or hedge exposure to reduce risk in the fund. The use of derivatives is managed in line with the investment management agreement agreed between the fund and various investment managers.

Forward foreign currency

The fund currently has exposure to forward currency contracts and the purpose of this is to reduce the fund's exposure to fluctuations in exchange rates. The fund managers who use forward currency contracts are Royal London and Ruffer. A breakdown of forward contracts held by the fund as at 31 March 2013 is given below.

Open forward currency contracts

Settlement	Currency Bought	Local Value '000	Currency sold	Local Value '000	Asset Value (Unrealised Gain) £'000	Liability Value (Unrealised loss) £'000
Up to one month	GBP	219	JPY	31,259	0	0
Up to one month	GBP	232	JPY	33,100	0	0
Up to one month	GBP	4,316	JPY	619,110	0	(21)
Up to one month	GBP	1,792	JPY	260,930	0	(36)
Up to one month	GBP	146	USD	221	1	0
Up to one month	GBP	3	USD	5	0	0
Up to one month	GBP	506	AUD	738	0	0
Up to one month	GBP	346	AUD	504	0	0
Up to one month	GBP	949	EUR	1,140	0	(15)
Up to one month	GBP	1,003	SEK	10,844	0	(95)
Up to one month	GBP	1,048	SEK	10,919	0	(57)
Up to one month	GBP	1,052	SEK	10,906	0	(52)
Up to one month	GBP	1,064	SEK	10,372	13	0
Up to one month	GBP	896	USD	1,460	0	(66)
Up to one month	GBP	469	USD	755	0	(29)
Up to one month	GBP	3	USD	5	0	0
Up to one month	GBP	1,056	USD	1,198	4	0
Up to one month	JPY	2,952	GBP	422,300	6	0
Up to one month	CAD	63	GBP	100	2	0
Up to one month	EUR	57	GBP	70	2	0
Up to one month	EUR	932	GBP	1,101	0	(1)
Up to one month	EUR	46	GBP	53	0	(1)
Up to one month	SEK	1,024	GBP	10,800	70	0
Up to one month	USD	486	GBP	752	9	0
Up to one month	USD	239	GBP	370	4	0
Up to one month	USD	3	GBP	5	0	0
Up to two months	GBP	5,593	USD	8,710	0	(144)
Up to three months	GBP	556	635	635	19	0
Gross Open forward currency contracts at 31 March 2013					130	(517)
Net Forward currency contracts at 31 March 2013						(387)
Prior year comparative						
Gross Open forward currency contracts at 31 March 2012					539	(23)
Net Forward currency contracts at 31 March 2012					516	

The following investments represent more than 5% of the net assets of the fund

Market Value 31 March 2012	% of total fund	Security	Market Value 31 March 2013	% of total fund
£'000			£'000	
83,881	20.8	MPF All World Equity index	109,991	23.9
-	-	Baillie Gifford Global Alpha Pension Fund	76,297	16.6
25,592	6.3	UBS Global Asset Management	-	-
20,722	5.1	MPF North America Equity Index	-	-

14. Financial instruments

(a) Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net assets statement heading. No financial assets were reclassified during the accounting period.

31 March 2012				31 March 2013		
Designated as fair value through fund account	Loans and receivables	Financial liabilities at amortised cost		Designated as fair value through fund account	Loans and receivables	Financial liabilities at amortised cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial Assets			
104,209	-	-	Equities	107,401	-	-
70,854	-	-	Fixed Interest Securities	65,506	-	-
46,660	-	-	Index linked securities	53,541	-	-
539	-	-	Derivative contracts	92	-	-
149,864	-	-	Pooled investment Vehicles	201,454	-	-
25,592	-	-	Property	21,542	-	-
	3,904	-	Cash	-	6,774	-
	-	-	Other investment balances	-	-	-
	6,865	-	Debtors	-	6,523	-
397,718	10,769	-	Financial Assets Total	449,536	13,297	-
			Financial Liabilities			
(23)	-	-	Derivative contracts	(479)	-	-
-	-	-	Other investment balances	-	-	-
-	-	(4,959)	Creditors	-	-	(1,779)
(23)	-	(4,959)	Financial Liabilities Total	(479)	-	(1,779)
397,695	10,769	(4,959)	Grand total	449,057	13,297	(1,779)

(b) Net gains and losses on financial instruments

	2012/13	2011/12
	£'000	£'000
Financial assets		
Fair value through fund account	49,098	9,122
Loans & receivables	-	-
Financial liabilities measured at amortised cost	-	-
Financial liabilities		
Fair value through fund account	-	-
Loans & receivables	-	-
Financial liabilities measured at amortised cost	-	(14)
Total	49,098	9,108

c) Fair Value of financial instruments carried out at fair value

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values

2011/12			2012/13	
Carrying Value	Fair Value		Carrying Value	Fair Value
£'000	£'000		£'000	£'000
397,718	397,718	Financial assets	449,536	449,536
10,769	10,769	Fair value through fund account	13,297	13,297
408,487	408,487	Loans & receivables	462,833	462,833
		Total financial assets		
(23)	(23)	Financial liabilities	(479)	(479)
(4,959)	(4,959)	Fair value through fund account	(1,779)	(1,779)
		Financial liabilities at amortised cost		
(4,982)	(4,982)	Total financial liabilities	(2,258)	(2,258)

The council has not entered into any financial guarantees that are required to be accounted for as financial instruments

(d) Valuations of financial instruments carried out at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The following tables provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which fair value is observable.

LONDON BOROUGH OF HAVERING STATEMENT OF ACCOUNTS 2012- 2013

Values at 31 March 2013	Quoted Market price	Using observable inputs	With significant unobservable inputs	Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
Financial Assets				
Financial assets at fair value through profit and loss	436,152	26	21,542	457,720
Loans and receivables	3,709	-	-	3,709
Total financial Assets	439,861	26	21,542	461,429
Financial Liabilities				
Financial liabilities at fair value through profit and loss	(387)	-	-	(387)
Financial liabilities at amortised cost	(467)	-	-	(467)
Total Financial Liabilities	(854)	-	-	(854)
Net Financial Assets	439,007	26	21,542	460,575

Values at 31 March 2012	Quoted Market price	Using observable inputs	With significant unobservable inputs	Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
Financial Assets				
Financial assets at fair value through fund account	376,705	22	25,592	402,319
Loans and receivables	1,695	-	-	1,695
Total financial Assets	378,400	22	25,592	403,014
Financial Liabilities				
Financial liabilities at fair value through fund account	-	-	-	-
Financial liabilities at amortised cost	(509)	-	-	(509)
Total Financial Liabilities	(509)	-	-	(509)
Net Financial Assets	377,891	22	25,592	403,505

15. Nature and extent of risks arising from financial instruments

Risk and Risk Management

The Fund's primary long-term risk is that the fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. The

fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

(a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the administering authority and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share and derivative price risk. This arises from investments held for the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short are unlimited.

The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the administering authority to ensure it is within limits specified in the investment strategy.

Other Price Risk – sensitivity analysis

Following analysis of historical data and expected investment return movements during the financial year, in consultation with the fund's performance monitoring service, it has been determined that the following movements in market price risk are reasonably possible for the 2013/14 reporting period:

Asset Type	31 March 2013 Potential market movements (+/-)	31 March 2012 Potential market movements (+/-)
UK Equities	18.30%	21.53%
Overseas Equities	0.00%	15.68%
Global Pooled inc UK	13.30%	0%
Fixed Interest Bonds	6.10%	7.03%
Index Linked bonds	9.90%	8.02%
Property	3.80%	4.05%
Cash	0.00%	0.02%

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of assets.

If the market price of the fund investments had increased/decreased in line with the above, the change in the net assets available to pay benefits would have been as follows (the prior year comparator is shown below):

Asset Type	Value as at 31 March 2013 £'000	Change %	Value on Increase £'000	Value on Decrease £'000
UK Equities	89,525	18.30	105,908	73,142
Global Pooled inc.UK	219,330	13.30	248,501	190,159
Fixed Interest Bonds	65,506	6.10	69,502	61,510
Index linked bonds	53,541	9.90	58,842	48,240
Property	21,542	3.80	22,361	20,723
Cash	6,774	0.00	6,774	6,774
Total	456,218		511,888	400,548

Asset Type	Value as at 31 March 2012 £'000	Change %	Value on Increase £'000	Value on Decrease £'000
UK Equities	239,900	21.53	291,551	188,249
Overseas Equities	14,173	15.68	16,395	11,950
Fixed Interest Bonds	70,854	7.03	75,835	65,873
Index linked bonds	46,660	8.02	50,402	42,917
Property	25,592	4.05	26,629	24,556
Cash	3,904	0.02	3,904	3,904
Total	401,083		464,716	337,449

Currency Risk

Currency risk represents the risk that fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund, i.e. £sterling.

The table below summarises the fund's currency exposure by asset type as at 31 March 2013 and 31 March 2012.

Currency Exposure by asset Type	Value as at 31 March 2013 £'000	Value as at 31 March 2012 £'000
Overseas Equities	17,876	14,172
Overseas Pooled	3,819	-
Overseas Fixed Interest bonds	1,797	1,467
Overseas Index Linked bonds	12,200	9,198
Overseas Cash	13	66
Total overseas assets	35,705	24,903

Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the fund's performance measurement service it has been determined that a likely volatility associated with foreign exchange rate movements is 6.9% over a rolling 36 month period.

This analysis assumes that all other variables, in particular interest rates, remain constant.

A 6.9% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset Type	Value as at 31 March 2013 £'000	Change to net assets available to pay benefits	
		+6.9% £'000	-6.9% £'000
Overseas Equities	17,876	19,109	16,642
Overseas Pooled	3,819	4,082	3,555
Overseas Index Linked Bonds	12,200	13,042	11,358
Overseas Fixed interest Bonds	1,797	1,921	1,673
Overseas Cash	13	14	12
Total	35,705	38,168	33,240

Currency exposure - Asset Type	Value as at 31 March 2012 £'000	Change to net assets available to pay benefits	
		+6.9% £'000	-6.9% £'000
Overseas Equities	14,172	15,150	13,194
Overseas Pooled	-	-	-
Overseas Fixed Interest Bonds	1,467	1,568	1,366
Overseas Index Linked Bonds	9,198	9,833	8,563
Overseas Cash	66	71	61
Total	24,903	26,622	23,184

Interest Rate Risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The fund's direct exposure to interest rate movements as at 31 March 2013 and 31 March 2012 is set out in the following table. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	As at 31 March 2013 £'000	As at 31 March 2012 £'000
Fixed interest securities	119,047	117,514
Cash and cash equivalent	5,719	3,904
Cash Balances	1,055	1,195
Total	125,821	122,613

Interest rate risk sensitivity analysis

The pension fund recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits.

The analysis that follows assumes all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS (1%) change in interest rates

Asset Type	Value as at 31 March 2013 £'000	Change in year in the net assets available to pay benefits	
		+100BPS £'000	-100BPS £'000
Fixed Interest Securities	119,047	1,190	(1,190)
Cash and cash equivalent	5,719	57	(57)
Cash Balance	1,055	11	(11)
Total Change in asset value	125,821	1,258	(1,258)

(b) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's assets and liabilities.

In essence the fund's entire investment portfolio is exposed to some form of credit risk. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Cash not needed to settle immediate financial obligations are invested by the authority in accordance with the Treasury Investment Strategy. The Treasury Investment Strategy sets out the criteria for investing and selecting investment counterparties and details the approach to managing risk.

(c) Liquidity Risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The administering authority therefore takes steps to ensure that the pension fund has adequate cash resources to meet its commitments. The Pension Fund has immediate access to its cash holdings that are invested by the authority and periodic cash flow forecasts are prepared to manage the timing of the fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the fund's cash management policy and in line with the fund's investment strategy holds assets that are considered readily realised.

16. Related Party Transactions

The Havering pension fund is administered by Havering Council. Consequently there is a strong relationship between the council and the pension fund.

There were no transactions with related parties other than those disclosed elsewhere within the accounts. During the year fees were paid to certain trustees for their services to the scheme. During the year no Member or Council officer with direct responsibility for pension fund issues has undertaken any declarable material transactions with the Pension Fund.

In 2012/13, £0.566m was paid to the Council for administration (£0.522m in 2011/12) and £19.700m (£19.398m in 2011/12) was paid by the Council to the Pension Fund in respect of employer's contributions.

Part of the pension fund cash holdings are invested on the money markets by the treasury management operations of Havering Council, through a service level agreement. As at 31 March 2013 cash holdings totalled £3.4m.

No members of the Pension Fund committee are in receipt of pension benefits from the Havering Pension fund.

Each member of the Pension Fund Committee is required to declare their interests at each meeting.

17. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) as at 31 March 2013 totalled £186k (2011/12 £186K). This commitment relates to outstanding commitment due on an unquoted private equity fund.

18. Contingent Assets

Three admitted bodies in the Havering pension fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds total £5.1m and are drawn down in favour of the pension fund and payment will only be triggered in the event of employer default.

19. Impairment losses

There were no material impairment losses for bad and doubtful debts as at 31 March 2012/13.

20. Actuarial Present value of promised retirement benefits

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 21). The actuary has also valued ill health and death benefits in line with IAS 19.

The actuarial present value of promised retirement benefits at 31 March 2013 was £895m (31 March 2012 £764m). The fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

The liabilities above are calculated on an IAS 19 basis and therefore differ from the results of the 2010 triennial funding valuation (see Note 21) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

Assumptions used for the IAS 19 valuation are as follows:

	31 March 2013	31 March 2012
	% p.a.	% p.a.
Inflation/Pensions Increase Rate	2.8	2.5
Salary Increase Rate	4.6	4.3*
Discount Rate	4.5	4.8

* Salary increases are assumed to be 1% until 31 March 2015 reverting to long term assumption shown thereafter.

21. Actuarial Valuation

London Borough of Havering ("the Fund") Actuarial Statement for 2011/12

This statement has been prepared in accordance with Regulation 34(1) (d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2012/13.

Description of Funding Policy

The funding policy is set out in the London Borough of Havering Funding Strategy Statement (FSS), dated February 2011. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- to ensure that employer contribution rates are as

stable as possible;

- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering Authority considers it reasonable to do so;
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 50% chance that the Fund will return to full funding over 24 years

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2010. This valuation revealed that the Fund's assets, which at 31 March 2010 were valued at £361 million, were sufficient to meet 61.3% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £228 million.

Individual employers' contributions for the period 1 April 2011 to 31 March 2014 were set in accordance with the Fund's funding policy as set out in its FSS.

Copies of the 2010 valuation report and Funding Strategy Statement are available on request from London borough of Havering, administering authority to the fund.

The Fund recognises the risk in relying on long recovery periods and has agreed with the Fund Actuary a limit of 20 years.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 30 March 2011.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2010 valuation were as follows:

Assumptions	31 March 2010	
	Nominal	Real
Discount Rate for Period	6.3%	3.0%
Pay increases *	4.8%	1.5%
Price inflation/Pension increases	3.3%	-

* Plus an allowance for promotional pay increases. Short term pay growth was assumed to be 1% for 10/11 11/12 and 12/13, 3.3% for 13/14 and 14/15 before reverting to 4.8% thereafter.

The key demographic assumption was the allowance made for longevity. The baseline longevity assumptions adopted at this valuation were in line with standard SAPS mortality tables, and included improvements based on medium cohort projections and a 1% p.a. underpin effective from 2010. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.9 years	24.6 years
Future Pensioners *	23.8 years	26.5 years

* Future pensioners are assumed to be age 45 currently

Experience over the period since April 2010

The funding level is likely to have worsened since the latest formal funding valuation.

There have been significant falls in government bond yields and to market expectations for long term inflation. The drop in bond yields is greater than the decrease in inflation expectations. The result is a decrease to the discount rate net of inflation which places a higher value on the liabilities.

Although total investment returns since the latest formal valuation have been higher than the long term assumption made at the 2010 valuation, this would only partially offset the impact the lower net discount rate has on the deficit.

The next valuation will be carried out as at 31 March 2013. The Funding Strategy Statement will also be reviewed at that time.

Employers' contribution rates for the Council, in line with the actuary's recommendation are as shown below:

	Future Service %	Past Service %	Total Pensionable Pay %
April 11 to March 12	15.6	6.4	22.0
April 12 to March 13	15.6	6.4	22.0
April 13 to March 14	15.6	6.4	22.0

The employer contributions for the other employers in the fund range from 14.7% to 25.3% of pensionable pay.

22. Critical Judgements in applying accounting Policies

Pension Fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates provided to the majority of admitted and scheduled bodies in the fund in the intervening years. The methodology used in the annual updates is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 21. This estimate is subject to significant variances based on changes to the underlying assumptions.

23. Events after the year end date

Local Government Pension Scheme

Changes to the Local Government Pension Scheme (LGPS) follow on from Lord Hutton's review of public sector pensions. The new Local Government Pension Scheme is expected to be implemented from the 1 April 2014. The main change of the new scheme involves a move from final salary to a pension based on average earnings over the career of the member. Under the new scheme existing benefits will be protected up to 31 March 2014. The pension fund liability, as disclosed in the

Council's accounts, does not reflect the impact of the proposed scheme. The impact of the proposals are currently being evaluated but the precise impact on fund liabilities will not be known until a further valuation is carried out by the fund's actuary. This change is deemed to be a non-adjusting post year end event.

24. Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the administrative body about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the net asset statement at 31 March 2013 for which there is significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied	The actuaries estimate that the impact of the change of assumptions to 31 March 2013 is to increase the actuarial present value by £89m.

This page is intentionally left blank

*London Borough of
Havering Pension
Fund 2012/13*

*Report to those charged with
governance*

*Report to the Pension Fund Committee
on the audit for the year ended 31 March
2013 (ISA UK&I 260)*

*Year ended 31 March
2013*

*Prepared for the
Pension Fund
Committee*

Table of Contents

1	Executive summary.....	3
2	Audit findings	5
3	Fees update	9
4	Internal control recommendations.....	10

Code of Audit Practice and Statement of Responsibilities of Auditors and Audited Bodies

In April 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and of audited bodies'. It is available from the Chief Executive of each audited body. The purpose of the statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and management letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any Member or officer in their individual capacity or to any third party.

1 *Executive summary*

The purpose of this report is to provide you with feedback from the work we have performed and to communicate relevant issues which have come to our attention during the audit for the year ended 31 March 2013.

Scope of our work

Our audit was performed under International Standards on Auditing (UK & Ireland) and followed the approach set out in our Audit Plan prepared for the Committee in February 2013. We have included a summary of our audit approach and specific findings from our audit work for each of the key components within section 2 of this report. There has been no cause for us to vary the planned scope of work.

Audit status

Our audit of the accounts of the London Borough of Havering Pension Fund (“the Fund”) for the year ended 31 March 2013 is now complete, subject to:

- final risk analytics procedures;
- resolution of our comments on the accounts which we have provided to management;
- review of the complete Annual Report when this is available;
- review for subsequent events;
- approval of the accounts by the Committee; and
- receipt of the letter of representation circulated separately.

Our conclusions

Our final conclusions are subject to satisfactory completion of the outstanding matters above but are expected to be as follows:

- Our audit report on the truth and fairness of the accounts will be **unqualified**.
- No matters have arisen that we have been required to report to the Pensions Regulator in accordance with our whistle-blowing responsibilities under the Pensions Act 2004.

There are no unadjusted misstatements in the accounts; however there are some amendments required to disclosures as summarised in disclosure matters at the end of section 2.

Misstatements and significant audit adjustments

There are no significant misstatements that we wish to bring to your attention.

Significant accounting principles and policies

Significant accounting principles and policies are disclosed in the notes to the accounts. We will ask management to represent to us that the selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Statement of Accounts as a whole have been considered.

Judgments and accounting estimates

Pensions liability

The most significant estimate in the Statement of Accounts as a whole is in the valuation of net pension liabilities for employees in the London Borough of Havering pension fund.

London Borough of Havering Pension Fund’s net assets increased by £57.1m in 2012/13 and now stand at £460.6m compared to £403.5m as at 31 March 2012. Your net pension deficit (liability) at 31 March 2013 was £385.4 million (2012 - £335.3 million).

The 2013 triennial valuation is yet to be concluded and will be reflected in the 2013/14 Statement of Accounts. The deficit for the Local Government Pension Scheme as a whole nationally is expected to have increased from £38bn to £80bn since 2010.

Audit issues, findings and internal control recommendations

The main issues and findings from our audit are included in section 2, along with internal control recommendations which are detailed in section 4. There are three internal control recommendations in the 'medium' priority category (relating to no discussion of fraud risk by the Committee, admission agreements, separation of bank accounts) and two in the 'low' category.

Independence and objectivity

Our reputation and continued success as a firm depends on our maintaining auditor independence. We are required to communicate with you matters that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

In addition to the audit of the Statement of Accounts, PwC has provided advisory services to the Council, relating to Investment in Local Infrastructure Assets during 2012/13. The PwC Report was considered by the Pension Fund Committee on the 30 April 2013. The fee for the piece of work was £25,000.

2 Audit findings

Financial highlights

Fund account

£m	2013
Contributions	30.2
Benefits, leavers and transfers out	(33.7)
Transfers in	3.7
Administrative expenses	(0.6)
Investment returns	57.5
Net increase	57.1
Opening net assets	403.5
Net assets	460.6

Net assets statement

£m	2013
Investments	457.3
Net current assets	3.3
Net assets	460.6

Contributions

Key figures

£m	2013	2012
Employer normal	15.1	15.3
Deficit funding	8.7	7.0
Augmentation	0.2	1.6
Member normal	6.1	6.3
Member additional	0.1	0.1
Contributions	30.2	30.3

Commentary

Contributions have remained stable during the year consistent with a small decrease in active membership numbers combined with salary increases.

Planned approach	Matters arising
Review the controls over payroll and audit on a sample basis that these are operating as expected.	None
Undertake analytical review of contributions for reasonableness compared with the prior year, allowing for changes in membership, pay and rates of contributions.	None
Test on a sample basis that the contributions are calculated and paid in accordance with the Rates and Adjustments Certificate.	See section 4 for observations around admission agreements
Review the timing of the payment of contributions according to bank details compared with statutory requirements.	See note on late contributions below

As part of the Councils monitoring procedures, there were some instances of late contributions that were picked up by the Council's pension team. There were 3 cases during the year, in the context of around 14 contribution receipts each month. We are satisfied that these items are not reportable to the Pensions Regulator as they are immaterial in value and there are no other factors that give cause for concern.

Benefits

Key figures

£m	2013	2012
Pensions	24.7	23.0
Lump sums – retirement	5.3	7.2
Lump sums – death	1.3	1.0
Transfers out and refunds	2.4	2.6
Total	33.7	33.8

Commentary

The average pension per pensioner increased by 3.3% from last year. Other benefits payable are related to membership movements and have remained broadly consistent year on year.

Average pension per pensioner member

£	2013	2012
Pension	4,614	4,465

Planned approach	Matters arising
Review the controls operated by the administration team (including over the pension payroll) and audit on a sample basis that these are operating as expected.	One control recommendation has been made here, see section 4.
Perform substantive testing on a sample basis over material types of benefit payments.	None
Undertake analytical review of pensions paid for reasonableness compared to the prior year, allowing for changes in membership and the effects of the pensions increase.	None
Consider the monthly total pensions paid and investigate any unusual fluctuations.	None
Compare membership statistics and movements reported against the supporting data from the administration system and review for reasonableness compared with our expectations.	None
Review the results of any pensioner existence checking exercise completed during the year.	None

Investments

Key figures

£m	2013	2012
Fixed interest securities	65.5	70.8
Index linked securities	53.5	46.7
Equities	107.4	104.2
Pooled investment vehicles	223.0	175.5
Derivative contracts	(0.4)	0.5
Cash and cash instruments	6.8	3.9
Other	1.5	0.7
Investments	457.3	402.3

Investment returns

£m	2013	2012
Investment income	9.5	8.3
Change in market value	49.1	9.1
Investment management expenses	(1.1)	(1.1)
Investment returns	57.5	16.3

Commentary

The movements in investments are broadly in line with market indices.

The overall investment return in the year was around 14.2% net of fees, a little higher than the WM All Funds index for the period of 11.7%, reflecting the mostly return seeking nature of the portfolio.

Planned approach	Matters arising
<p>Existence</p> <p>Understand the Committee and management monitoring controls, including reviewing Committee meeting minutes.</p> <p>Obtain independent confirmations of assets from the custodian and investment managers.</p> <p>Review internal controls reports (ISAE/SSAE etc) on investment management and custody.</p>	None
<p>Valuation</p> <p>Test valuation of quoted investments against third party sources.</p> <p>Understand how the Committee and management validate asset values provided by investment managers for investments which are not quoted.</p> <p>Review valuations for pooled investment vehicles, including reviewing recent transaction prices, the most recent audited accounts and any available internal controls reports as applicable to achieve comfort.</p>	None
<p>Completeness</p> <p>Review the reconciliations of cash inflows and outflows from the Fund's bank account compared to contributions and other income, benefits and expenses and the movements in investments.</p> <p>Review the reconciliations performed in-house between investment manager and custodian assets.</p>	None
<p>Complete an analytical review of investment returns for reasonableness compared with the Fund's benchmark and other external indices.</p>	None
<p>Review the allocation of investments compared with the requirements of the Statement of Investment Principles (SIP).</p>	None

Significant risks

ISAs recommend that we communicate how we propose to respond to significant risks (those which require special audit consideration) identified during the audit. Because of the potential link to fraud, the risk of **management override of controls** is always considered a significant risk. We addressed this risk by performing testing of journals, reviewing any estimates made by management, and reviewing minutes in connection with any significant or unusual transactions. There is one matter to report from our work here, i.e. the lack of discussion around fraud risk by the Pension Committee.

Please see section 4 for further details.

Disclosure matters

We have reviewed disclosures in the draft accounts and provided comments for management to amend the accounts. The following key matters were discussed with management and amendments were made to the financial statements:

- The need for a disclosure of employer contribution rates under the Code Para 6.5.5.1 A.
- The contingent assets figure stated in the accounts is understated by around £0.6m (should increase from £4.5m to £5.1m).
- Derivative related assets and liabilities should be shown grossed up on the face of the net assets statement.
- The nature of derivative purchases and sales should be disclosed.
- Stock lending should be disclosed

3 Fees update

We reported our fee proposals in our plan.

Our actual fees were in line with our proposals, subject to completion of the outstanding areas highlighted in this report.

	2012/13 outturn	2012/13 fee proposal
	21,000	21,000
Pension Fund		
TOTAL	21,000	21,000

PwC also provided advisory work on Investment in Local Infrastructure Assets, during 2012/13 which was considered by the Pension Fund Committee on 30 April 2013. The fee for this work was £25,000 and is not included in the above table.

4 Internal control recommendations

Significant internal control recommendations from this year's audit

We have graded the impact of the matters in this section on the following basis:

HIGH	A significant issue which could result in material financial, regulatory or reputational risk.
MEDIUM	A less significant issue but still relating to an area where we think controls should be improved as a priority.
LOW	Areas where we recommend enhancements be made to existing controls or matters of best practice.

Issue 1	Fraud risk not discussed by the Pension Fund Committee MEDIUM
<i>Observation and implication</i>	From our review of Committee meeting minutes and discussions with management we could not find any record of discussions of fraud risks that may affect the Fund.
<i>Recommendation</i>	As those charged with governance of the Fund, we recommend that consideration of fraud risk forms a standing item on the agenda of Committee meetings on at least an annual basis.
<i>Response and timescale</i>	<p>Investment fraud risk is covered by the internal control reports undertaken by the Fund Managers externally appointed auditors.</p> <p>Benefit fraud risk is already considered annually by the Pensions Committee, with specific reference to fraud risk (if relevant) in the Pension Fund Annual Report. The Pension Fund Annual report 2011/12 included reference to the Pension Administration team day to day functions, which included Bi-annual National Fraud (NFI) compliance.</p> <p>The 2012/13 version (currently in preparation) is proposed to include the following "Monitoring of pension overpayments, recoveries and amounts written off, including the results of participation in the national Fraud Initiative commenced in 2012/13 and is being monitored on a quarterly basis. In 2012/13 the recoverable overpayments of pension to deceased members of the scheme amounted to £7,817 of which £6,167 has so far been successfully recovered. The Council has always subscribed to the National Fraud Initiative (NFI), for pensions this involves identifying any deceased members of the LGPS and any pension abatements not already known to the Pensions Administration Team. The result of this may lead to the recovery of overpayments of pension. In 2010/11 there was a total of 243 matches reviewed of which there was only one case identified not already known to the Team. One case matched a pension payment to a deceased person and we recovered £2,051.09"</p> <p>The Internal Audit and Risk Manager will submit a separate fraud report to the Pensions Committee. Timescales to be established</p>

Issue 2**Issues with admission agreements****MEDIUM***Observation and implication*

While reviewing admission agreements for the admitted bodies we noted the following:

- (1) LB Havering are currently in dispute with Innovate, who were admitted into the Fund on 1 August 2012 but for which the admission agreement has not been signed. Innovate have not been able to provide for their indemnity bond per the Actuary's valuation. There are just 5 employees in the Fund from this body.
- (2) It was noted that bonds are not being regularly revalued but are only valued at admission and not thereafter. LGPS Regulations 2008 Sections 6/7 (from Oct 2012, SI 1989 - Section 25) states that bond values should be regularly revalued. As a result the contingent asset figure in the accounts was not up to date; see also disclosure matters in section 2.
- (3) For Havering Citizen's Advice Bureau, there does not appear to be any bond cover in place and it is not clear how the Fund would be protected in the event of the body going into liquidation.
- (4) There seems to be a lack of communication between the Service departments, legal team and the pensions accounting team with regards to admission agreements. This affects the contingent asset figure in the accounts as a contingent asset is only included for those bodies with a signed admission agreements, but the pension fund accountant is not certain of which bodies have or do not have agreements.

Recommendation

- (1) We recommend that until the dispute is resolved Innovate are not treated as an admitted body for the purposes of the report and accounts, for example that their bond value is not included in the contingent asset figure.
- (2) We recommend that bonds are regularly revalued. Although the regulations do not stipulate how frequently this is needed, it would be reasonable to do this at least annually and certainly as part of the Triennial review being undertaken in 2013.
- (3) We recommend that the Committee agree an approach to indemnifying the Fund against the risk of Havering Citizen's Advice Bureau going into liquidation.
- (4) We recommend that a formal protocol is established for admission of admitted bodies, including monitoring and the pensions accounting team be given a full schedule of admission agreements so that the accounts can be kept up to date in this respect.

Response and timescale

Observation Point 2 – The report states that bonds are not regularly reviewed and as a result the contingent asset figures in the accounts are incorrect. Whilst we agree that the bonds should be reviewed by the letting authority more frequently the contingent asset figure is not incorrect as it is based on the latest valuations. As such we consider these to be correct but may at worst be out of date. A review of the bonds could possibly result in no change to the values. Bonds will be reviewed as part of the triennial valuation process currently being undertaken.

Observation Point 3/Recommendation 3 – Havering Citizen’s Advice Bureau (CAB) are a charitable organisation and has been a Community Admitted Body in the Havering Pension Fund for quite a considerable time and tracing any historical documentary evidence of a bond/guarantor in place has proved to be difficult. Whilst we agree that there should be some form of protection for the Fund against the CAB going into liquidation the cost to the pension fund would be minimal bearing in mind that they have only two active members remaining in the fund. We consider this to be a low risk and not medium risk as mentioned in your report. It should also be noted that Havering Council are one of the major contributors to the funding of the CAB and therefore the risk of commercial failure is also a low risk whilst this arrangement is in place.

Recommendation 4 – A review of the TUPE process, including responsibilities, is to be commissioned and this recommendation will be reviewed as part of the TUPE process review.

Issue 3

Separation of bank accounts

MEDIUM

Observation and implication

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 required that all pension schemes have their own back account effective 1 April 2011.

Specifically the regulations state the following:

“On and after 1st April 2011, an administering authority must hold in a separate account kept by it with a deposit-taker in accordance with this regulation—

- (a) all monies held by the authority on that date; and
- (b) all monies received by it on or after that date for the purpose of its pension fund.”

We reported in the prior year that the Fund had opened a bank account with RBS in April 2011 but was not operational during the 2011/12 financial year. For the 2012/13 financial year the bank account remained unused.

We understand from the Pensions Administration team all bodies were contacted during the 2012/13 financial year with instructions to ensure contributions are paid into the RBS account from April 2013. This is being monitored by the pension administration team.

Pension payments continue to be paid out through the main council’s bank account, with a transfer being made from the Fund to the Council to clear the settlement.

Recommendation

We recommend the Council investigates whether the approach is compliant with the requirements of the legislation and how the Fund’s bank account can become fully operational in accordance with the above regulation.

Issue 3	Separation of bank accounts	MEDIUM
<i>Response and timescale</i>	<p>Employer and Employee contributions from external employers are already processed through the Pension Fund (PF) bank account from April 2013. The Council have also been involved in on-going negotiations with the banking provider to set up the facilities for making payments to pensioners through the PF bank account.</p> <p>Whilst this does not complete all the transactions that would be processed through the PF bank account, any further transactions will require system changes and these have been put on hold pending the implementation of the One Oracle project. Timescales will be established and separately notified</p>	
Issue 4	Lack of pensions specific risk register	LOW
<i>Observation and implication</i>	<p>We note that there was no risk register in place specifically for the Fund during 2012/13 financial year. The Myners principles state that this is best practice, and although the Committee does monitor the Fund's risks, to implement a regularly updated risk register with agreed mitigating controls and actions is likely to enhance the Committee's monitoring processes.</p>	
<i>Recommendation</i>	<p>We recommend that the Committee consider drawing up a pensions specific risk register.</p>	
<i>Response and timescale</i>	<p>The Committee has considered and agreed that a risk register specific to pensions is drawn up. This is currently a work in progress and the Pension Fund Accountant will work with the Internal Audit and Corporate Risk Manager to finalise the risk register.</p>	
Issue 5	Bank account verification for new dependants	LOW
<i>Observation and implication</i>	<p>Although the setup of new dependants is not material from an audit perspective, we tested a sample of such cases in the interests of incorporating an element of unpredictability into the audit procedures in line with ISA 240. We noted that the setup form which new dependants are asked to complete does not ask for the name of the relevant bank account holder and to our knowledge there are no controls in place to verify the validity of the bank account.</p>	
<i>Recommendation</i>	<p>Although the risk may be considered to be remote, we recommend that as a matter of best practice the administration team should amend the forms to include the name of the bank account holder and check that the account is in the relevant person's name.</p>	
<i>Response and timescale</i>	<p>The Pension Administration Team will review this recommendation in line with benchmarked best practice</p>	

This page is intentionally left blank