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Havering
LONDON BOROUGH

PENSIONS COMMITTEE AGENDA

6.30 pm	Tuesday 26 March 2013	Town Hall, Main Road, Romford

Members 7: Quorum 3

COUNCILLORS:

Conservative Group (4)	Residents' Group (1)	Labour Group (1)	Independent Residents' Group (1)
Melvin Wallace (Chairman) Becky Bennett (Vice-Chair) Eric Munday Roger Ramsey	Ron Ower	Pat Murray	Jeffrey Tucker

Trade Union Observers

(No Voting Rights) (2)

John Giles, (Unison)
Andy Hampshire, GMB

Admitted/Scheduled Bodies Representative

(Voting Rights) (1)

Marian Clay

For information about the meeting please contact:
James Goodwin 01708 432432
email: james.goodwin@havering.gov.uk

AGENDA ITEMS

1 CHAIRMAN'S ANNOUNCEMENTS

The Chairman will announce details of the arrangements in case of fire or other events that might require the meeting room or building's evacuation.

2 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) - receive

3 DISCLOSURE OF PECUNIARY INTERESTS

Members are invited to disclose any pecuniary interest in any of the items on the agenda at this point of the meeting.

Members may still disclose any pecuniary interest in any item at any time prior to the consideration of the matter.

4 MINUTES OF THE MEETING (Pages 1 - 8)

To approve as correct the minutes of the Special meeting held on 27 November 2012 and of the meeting held on 12 December 2012 and authorise the Chairman to sign them.

5 AUTOMATIC ENROLMENT (Pages 9 - 14)

Report attached.

6 REVIEW OF COMMUNICATION STRATEGY (Pages 15 - 34)

Report attached.

7 PUBLIC SERVICE PENSIONS BILL (Pages 35 - 42)

Report attached.

8 PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 31 DECEMBER 2012 (Pages 43 - 56)

Report attached.

9 REVIEW OF THE STATEMENT OF INVESTMENT PRINCIPLES (Pages 57 - 92)

Report attached.

10 URGENT BUSINESS

To consider any other item in respect of which the Chairman is of the opinion, by reason of special circumstances which shall be specific in the minutes that the item should be considered at the meeting as a matter of urgency.

11 EXCLUSION OF THE PUBLIC

To consider whether the public should now be excluded from the remainder of the meeting on the grounds that it is likely that, in view of the nature of the business to be transacted or the nature of the proceedings, if members of the public were present during those items there would be disclosure to them of exempt information within the meaning of paragraph 1 of Schedule 12A to the Local Government Act 1972; and, if it is decided to exclude the public on those grounds, the Committee to resolve accordingly on the motion of the Chairman.

12 EXEMPT MINUTES

To approve as correct the exempt minutes of the Special meeting held on 27 November and the meeting of the Committee held on 12 December 2012.

13 PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 31 DECEMBER 2012

To consider the exempt report from Hymans Robertson and receive presentations from the following Fund Managers:

- Standard Life,
- Royal London, and
- Baillie Gifford.

14 REVIEW OF STATEMENT OF INVESTMENT PRINCIPLES

To consider the exempt Appendices ‘C’ and ‘D’.

Ian Buckmaster
Committee Administration &
Member Support Manager

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MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Committee Room 3A - Town Hall
27 November 2012 (2.00 - 4.25 pm)

Present:

COUNCILLORS

Conservative Group	Melvin Wallace (Chairman), Georgina Galpin (In place of Eric Munday) and Roger Ramsey
Residents' Group	Ron Ower
Labour Group	Pat Murray
Trade Union Observer	John Giles
Also present (as observer)	Marilyn Clay

Apologies were received for the absence of Councillor Rebbecca Bennett and Andy Hampshire.(Trade Union Observer)

The Chairman reminded Members of the action to be taken in an emergency.

20 **INVESTMENT REGULATIONS**

The Committee received a presentation on The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (No.3093). These regulations had come into force on 1 January 2010 and were currently subject to consultation with reference to Private Partnerships.

The presentation covered the definition of Investment, Management of the Fund, Investment Managers, Investment and the use of Money, Statement of Investment Principles, Restrictions on Investments and the requirements for increased limits. This presentation was aimed at improving the committee's knowledge of the regulations covering the management of the Pension Fund.

The Committee thanked Simon for his presentation.

21 **EXCLUSION OF THE PUBLIC**

The Committee resolved to excluded the public from the meeting during discussion of the following item on the grounds that if members of the public were present it was likely that, given the nature of the business to be transacted, that there would be disclosure to them of exempt information within the meaning of paragraph 3 of Schedule 12A to the Local Government Act 1972 which could reveal information relating to the financial or business affairs of any particular person (including the authority holding that information) and it was not in the public interest to publish this information.

22 **UBS TRITON FUND**

The Chairman advised the Committee of his actions in respect of the Fund's proxy vote at the Extraordinary General Meeting called by UBS regarding their Triton Investment Fund.

23 **INVESTMENT STRATEGY REVIEW**

The Committee received a presentation from the Pension Fund's Investment Advisor on the reasons why the Investment Strategy required review and the areas which the Committee needed to cover.

Having discussed at length the various options the Committee **agreed** that a further report should be submitted to the next meeting to be held on 12 December 2012 to enable progress to be made in approving a revised strategy.

24 **DEPARTMENT FOR COMMUNITIES AND LOCAL GOVERNMENT CONSULTATION ON LOCAL GOVERNMENT PENSION SCHEME - INVESTMENT IN PARTNERSHIPS.**

Officers had circulated details of the consultation which was seeking views on whether any amendment was necessary to remove specific barriers preventing Scheme funds being invested in infrastructure vehicles designed to control risk exposure and provide both income stream to funds and necessary capital input into projects intended to stimulate growth.

The Committee indicated support for the changes and **authorised** the Group Director, Finance and Commerce to submit a response on the Pension fund's behalf.

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Chairman

MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Council Chamber - Town Hall
12 December 2012 (5.30 - 7.20 pm)

Present:

COUNCILLORS

Conservative Group	Melvin Wallace (Chairman), Georgina Galpin (In place of Becky Bennett), Eric Munday and Roger Ramsey
Residents' Group	Clarence Barrett (In place of Ron Ower)

Apologies were received for the absence of Councillors Becky Bennett and Ron Ower, and for the absence of Marian Clay (Admitted/Scheduled Bodies Representative).

All decisions were taken with no votes against.

The Chairman reminded Members of the action to be taken in an emergency.

25 MINUTES OF THE MEETING

The minutes of the meetings held on 2nd October and 31st October 2012, including the exempt minutes for the meeting held on 2nd October 2012, were agreed as a correct record, and signed by the Chairman.

26 AUTOMATIC ENROLMENT

The Committee were advised that the Pensions Regulator together with the Department of Work and Pensions were overseeing changes to the Pensions Act 2011, which required employers to offer a pension scheme to their employees, to automatically enrol those who meet certain criteria on the employers staging date, monitor other employees to ascertain when they meet the set down criteria, and to re-enrol those who opt out of the scheme every three years.

For Havering the staging date was 1 March 2013. The statistics around automatic enrolment in Havering showed that at present there were only approximately 630 non school employees who were not either in the LGPS or Teachers Pension scheme, hit the age or earnings trigger and were therefore due to be enrolled under automatic enrolment.

Officers had estimated that the cost of employer's contributions per year, if all eligible job holders stayed in the appropriate pension scheme, would be approximately £2.4m. However, all salary budgets already included the on-cost for employer's contributions.

The cost of non-compliance would be £10,000 per day for the Council. The costs of the Pension Project Manager, communications and training fall on the Council not the Pension Fund.

The Committee sought assurance that the schools had been consulted on the changes. Officers gave an assurance that they had been sharing information with the schools. With regard to transitional relief a decision had been taken that this would not be applied for as this would require the Council to run two schemes. The Group Director, Finance and Commerce would speak to the Lead member regarding outstanding issues.

The Committee:
1. **Noted** the impact of automatic enrolment and the activities to prepare for the Council's staging date of 1 March 2013, in accordance with the Workplace Pension Reform;
2. **Agreed** the Communication Plan for automatic enrolment; and
3. **Noted** that a revised Pension Fund Communication Strategy would be submitted to the next scheduled meeting of the Committee in March.

27 EXCLUSION OF THE PUBLIC

The Committee resolved to excluded the public from the meeting during discussion of the following item on the grounds that if members of the public were present it was likely that, given the nature of the business to be transacted, that there would be disclosure to them of exempt information within the meaning of paragraph 3 of Schedule 12A to the Local Government Act 1972 which could reveal information relating to the financial or business affairs of any particular person (including the authority holding that information) and it was not in the public interest to publish this information.

28 REVIEW OF INVESTMENT MANAGERS' PERFORMANCE FOR THE THIRD QUARTER OF 2012.

Officers advised the Committee that the net return on the Fund's investments for the quarter to 30 September 2012 was 3.7%. This represented an out performance of 0.5% against the combined tactical benchmark and an outperformance of 1.8% against the strategic benchmark. The overall net return for the year to 30 September 2012 was 14.1%. This represented an out performance of 0.9% against the annual tactical combined benchmark and an under performance of -1.6% against the annual strategic benchmark.

The Committee were advised that UK Equities had made solid gains in the quarter as markets were boosted by Central Bank stimulus measures across the globe. The UK economy remained sluggish and the Bank of England had cut its forecast for growth in 2012 to close to zero. Global markets had posted steady gains despite economic growth forecasts being revised downwards. The Central Banks provided further policy supports to financial markets. Core government bonds had been driven into expensive territory due to demand of a flight to safety and the effects of quantitative easing. There were no changes to UK interest rates at 0.5% and inflation closer to targets.

1. Hymans Robertson (HR)

HR advised the Committee that in many European countries, including the UK, there was an active debate over the balance between austerity measures and the need to promote economic growth. Civil unrest in Spain and Greece in September demonstrated the deep unpopularity of austerity measures. In the US, weak employment numbers were a recurring source of concern. The Eurozone crisis had been regularly cited as the greatest threat to the global economy. In the US and China decelerating economic growth had been the catalyst for further monetary easing.

In bond markets, Spain, Portugal and Italy continue to pay a ‘premium’ price for borrowing. In contrast, certain German bonds, at times. Returned a negative yield, as investors effectively paid for the security they offered.

Key events during the quarter were:

Global Economy
· Policy makers in the UK, Eurozone, US, Japan and China had announced further asset purchase programmes to stimulate economies;
· Short-term interest rates were unchanged in UK, US and Japan;
· Eurozone short-term interest rates were cut, from 1.0% to 0.75%;
· France and Italy had pressed the case for economic growth rather than austerity as policy priority;
· Moody’s had placed the outlook for credit ratings of Germany and Netherlands on ‘negative watch’.

Equities
· Apple became world’s largest company measured by market capitalisation ($623bn);
· The strongest sectors relative to the ‘All World’ Index were Oil & Gas (+2.6%) and Financials (+1.6%); the weakest were Utilities (-5.7%) and Consumer Goods (-2.4%).

Bonds
· The ECB had announced a bond purchase programme to assist countries struggling to raise funds;
· Corporate bonds had outperformed government issues by a significant margin.

The action taken by policy makers during the quarter reflected deep unease about the global economic outlook. For the US, and indeed the global economy, much depended on the outcome of the November presidential election. The two main candidates offer very different economic strategies.

The Committee were advised of the performance of the various Investment managers during the quarter. Further details are available in the confidential minutes.

2. State Street (SS)

Kevin Cullen, Senior Relationship Manager advised the Committee that the Passive Equity Portfolio continued to perform as expected. Since inception the fund had outperformed the benchmark by 0.03%.

The Committee thanked Mr Cullen for his presentation.

3. UBS Triton (UBS)

The new Portfolio Manager, Howard Meaney and Natasha Paterson, Investor Relations attended the meeting to update the Committee on the current position with the UBS Triton Fund. Details of the discussions are included in the exempt minutes.

29 **INVESTMENT STRATEGY REVIEW**

At the last meeting of the Committee consideration was given to some interim changes to the allocation of funds across the asset classes. To allow this to happen the Committee needed to agree an interim amendment to the current Statement of Investment Practice pending completion of the review of the Investment Strategy.

In accordance with the guidance given at the last meeting officers had invested the proposal to initially increase the asset allocation to the Absolute Return Manager from 10& to 15%. This would be funded by reducing the assets held by the passive equities manager.

The other employers in the fund had been notified of the intended changes to the investment strategy and the interim change to the asset allocations. No adverse comments had been received.

The Committee agreed:

1. To the interim amendment of the current Statement of Investment Practice (SIP), pending completion of the review of the investment strategy;
2. That the Chairman of the Committee be delegated to make the final decision on the proposal having considered any representations made; and

3. To note that a more detailed report would be presented to the Committee setting out the full proposal for the SIP and an action plan for implementation.

Chairman

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE 26 March 2013	REPORT

Subject Heading:	Automatic Enrolment implementation progress
CMT Lead	Andrew Blake-Herbert
Report Author and contact details:	Contact: Karen Balam Designation: Transactional Manager Telephone: (01708) 432271 E-mail Address: Karen.balam@havering.gov.uk
Policy context:	Pensions Act 2008 and 2011.
Financial summary:	The development of automatic enrolment is a cost to the employing bodies, there are no direct costs to the Pension Fund. The costs for the employing body are being met from corporate resources.

The subject matter of this report deals with the following Council Objectives

Clean, safe and green borough	[]
Excellence in education and learning	[]
Opportunities for all through economic, social and cultural activity	[]
Value and enhance the life of every individual	[X]
High customer satisfaction and a stable council tax	[]

SUMMARY

The report is to provide an update to the Committee of the progress in implementing the new pension reform legislation covering automatic enrolment.

RECOMMENDATIONS

1 Members note the delay in the staging date.

REPORT DETAIL

1 Background

1.1 Following the Government's acceptance of the Lord Hutton report on pensions reform, several initiatives have been instigated under Workplace Pensions Reform. The Pensions Regulator together with the Department of Work and Pensions are overseeing the changes to the Pensions Act 2011, which requires all employers to offer a pension scheme to their employees, to automatically enrol those who meet certain criteria on the employers **staging date**, monitor other employees to ascertain when they meet the set down criteria, and to re-enrol those who opt out of the scheme every 3 years.

1.2 The implementation date is being staggered across the country with the largest employers having to comply first. This staggering of the implementation is known as the "**staging date**". For Havering the staging date was due to be the 1 March 2013, however, legislation allows the council to postpone automatically enrolling workers who are not in a workplace pension scheme by up to 3 months from the staging date.

1.3 Decisions regarding registering with the Pension Regulator, triennial re-enrolment, delay to the staging date, deferring automatic-enrolment for casual workers, and charging for supporting external bodies are a matter for the Council as employer.

2 Staging Date Postponement

2.1 System Preparation

2.1.1 The Council's Financial system (Oracle) has to be updated with a required legislative system patch to ensure it complies with the complexities of automatic enrolment, in identifying those employees meeting the necessary criteria and reporting accordingly. The patch was applied and tested to ensure the system could deliver the required outcomes. The testing did not provide assurance that the patch was delivering the required expected results, and a decision has been made to delay the **staging date** until 1 May 2013. This will ensure a smooth and efficient process.

2.2 Risks

2.2.1 In order to deliver Automatic Enrolment and ensure the payroll system is fully operational the Council is totally reliant on the Oracle functionality. The Council is at significant risk if the Automatic Enrolment patch does not work. Work to date still leaves the risk of the system not working properly as high, which is concerning as the required staging date, 1 March 2013, has already been missed and the new staging date now clashes with the closure of accounts work, Real Time Information (RTI), further new Academies payrolls requiring set up, and period 1 budget monitoring for 2013/14 financial year. This is being closely managed.

2.3 Postponement Communications

2.3.1 The legislatively required letter on the enrolment postponement is being issued through the most economically efficient method, using the global email system to reach corporate Council staff and the Pensions Administration employers database to reach school based staff.

3 Communications Plan

3.1 The communications plan is in place and notifications to staff have started with items in recent Global news, the display of posters in line with the TV adverts, and an article for "Inside Havering" currently in progress.

3.2 Schools continue to be kept informed via emails sent to Head teachers for cascading to their staff. Academy schools, Foundation Schools, other scheduled and admitted bodies are mostly aware of their own staging dates.

3.3 The council has offered packages of assistance to all of its separate employers that pay contributions to either the Local Government Pension Scheme (LGPS) or the Teachers' Pension Scheme.

3.4 Employee road shows to raise awareness of automatic enrolment have commenced, which are being well attended and also give the opportunity to provide information on the current Local Government pension scheme and the proposed 2014 scheme. Arrangements are also under way to attend schools where requested to deliver this information.

4 Pensions Act - Other legislative changes

4.1 To comply with the Pensions Act, effective from July 2012, the joiners form for the LGPS was re-designed to remove the opt out option which was included in the previous version of the form, and an "Opt Out form" was designed and loaded on to the pension website www.yourpension.org.uk. This is to further comply with legislation.

4.2 As a consequence of the legislation, packs that are sent out to potential new staff to the authority were also amended to ensure the information given complied with the new legislation.

4.3 Finally, the legislation meant that the LGPS regulations had to be amended to allow casual employees the right to join the scheme should they so wish, as the legislation under automatic enrolment states that they WOULD have to be automatically enrolled if earnings in any pay period reached or exceeded £787, which is the earnings trigger.

4.4 All schools were alerted to this change in the pension scheme regulations and asked to cascade this to any relevant staff.

4.5 Work is progressing in drafting the letters that are required by law to go out to all staff following the delayed **staging date**, and again it is intended that the most efficient and cost effective method is used.

IMPLICATIONS AND RISKS

Financial implications and risks:

This area of work is an employer responsibility and cannot be met by the Pension Fund. The project is over and above the services provided by Internal Shared Services and is not funded within ISS budgets. The costs of project managing the delivery of Automatic Enrolment, communications and training will be met from corporate Council budgets, although until the full final suite of letters is finalised these costs cannot be estimated. At all times the most effective and cost efficient methods of distribution will be utilised.

It should be noted that the Pension Regulator fines for non compliance or failure to deliver would be £10,000 per day for the Council. The Pension Regulator ascertains the numbers of people on each PAYE reference with HMRC in order to inform all employers of their staging dates, issues count down letters and has the powers to check on organisations for compliance. The level of fines are determined by the size of the employer.

The estimated level of impact on the Pension Fund if all eligible job holders from the London Borough of Havering remained in the LGPS would be additional contributions of £1.8m. The likely impact on authority and school budgets, on the assumption that 20% of those automatically enrolled remain in the LGPS is £365,000 per annum of additional payments to the fund with liabilities falling due at some future date.

The additional contributions reflect additional costs to the council through additional employer contributions which may not be met from existing budgets, however as services should budget in full for employee costs, this is probably a relatively low risk. The impact of additional employer pension contributions through increased scheme membership will have to be managed within existing budgets.

Legal implications and risks:

The Pensions Act 2011 requires employers to register with the Pension Regulator and automatically enrol eligible employees into a qualifying pension scheme where they are not currently a member. This task then needs to be repeated every 3 years. This imposes significant administrative burdens on the London Borough of Havering and has financial implications.

Failure to comply with the automatic enrolment regulations will expose the Council to the risk of fines imposed by the Pension Regulator.

Human Resources implications and risks:

There will be an on-going change in processes and procedures to ensure that the required legislation is delivered and built into working practices.

The delivery of Automatic Enrolment is a priority of the Council due to the legislative requirements, with a team of relevant experts ensuring delivery from within ISS and across the Council through the Automatic Enrolment Working Team. The information of who is eligible to be automatically enrolled in the Local Government Pension Scheme (LGPS) is identified from the HR and Payroll system, which will be updated by a system ‘patch’ to allow the system to deliver the legislative change. Robust system testing of the ‘patch’ will take place to ensure it delivers the expected outcomes.

Equalities implications and risks:

Since the Amendment Regulations, October 2012, all non-teaching employees have the right to join the LGPS. All non-teaching employees with a contract of 3 months or more are already automatically enrolled in the LGPS. All non-teaching employees with contracts of less than 3 months (including casuals) may now elect to join the LGPS.

BACKGROUND PAPERS

The Local Government Pension Scheme Regulations (various) and the Guidance notes issued with them.

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Agenda Item 6

Havering
LONDON BOROUGH

PENSIONS COMMITTEE **26 March 2013**	**REPORT**

Subject Heading:	REVIEW OF COMMUNCATION STRATEGY
CMT Lead	Andrew Blake-Herbert
Report Author and contact details:	Contact: Karen Balam Designation: Transactional Manager Telephone: (01708) 432271 E-mail Address: Karen.balam@havering.gov.uk
Policy context:	Regulation 67 of the LGPS (Administration) Regulations 2008 requires an administrative authority to keep this document under review.
Financial summary:	There are no direct financial implications arising from this report. Delivering communications is a cost to the fund.

The subject matter of this report deals with the following Council Objectives

Clean, safe and green borough	[]
Excellence in education and learning	[]
Opportunities for all through economic, social and cultural activity	[]
Value and enhance the life of every individual	[X]
High customer satisfaction and a stable council tax	[]

SUMMARY

In line with the Local Government Pensions Scheme Regulations and good practice the London Borough of Havering as an administering authority has a duty to undertake, at least annually, a review of the Pension Fund's Communication Strategy.

This report sets out the Pension Fund's communication priorities and the proposed revised Communication Strategy 2013 – 2015.

RECOMMENDATIONS

1 Consider and agree the revised Communication Strategy 2013 – 2015, including the communication priorities identified (Appendix A)

REPORT DETAIL

1. Communication Strategy Review and Update

1.1 LGPS (Administration) Regulations 2008, Regulation 67, states that the administration authority must keep the Policy concerning communication with members and employers under review.

2 Draft Communication Strategy (Appendix A)

2.1 This sets out how the provision of information and publicity about the pension scheme is communicated to members, representatives of members and employing authorities. It also includes the format, frequency and method of distributing such information.

2.2 Underpinning the proposed Communication Strategy are three areas of action which will allow the Pension Administration Team to '**Get ready for new challenges'** in order to be prepared to meet four areas of significant challenge during the period of the strategy. The four areas of significant challenge are:

- Automatic Enrolment;
- The introduction of the new CARE pension scheme from April 2014;
- The Triennial Valuation; and
- Procuring a new pension software system in readiness for the 2014 pension changes.

3 Summary Review of Communication Strategy November 2010 – March 2012

3.1. This sets out a review of the Communication Strategy presented to Committee in November 2010 (Appendix B), identifying what has been achieved and what is outstanding.

Communication Responsibilities	Paper Form	Electronic Form	Web	Face	Audience/ Frequency	Achieved
Recent changes	✓	✓	✓	✓	All/ As required	Yes
Regular Updates		✓		✓	Employers/ As required	Yes

Employers Guide	✓	✓		✓	**Employers/ As required**	**Yes (Guide being updated)**
Pension Fund Annual Report and Accounts			✓		**Scheme Members and Employers/ Annually**	**Yes**
Newsletters	✓		✓		**Scheme Members/ As required**	**Yes**
Benefit Statements	✓				**Active and deferred members/ Annually**	**Active – Yes (where records can be relied on)** **Deferred – Yes (where address confirmed)**
Scheme Literature		✓	✓		**Scheme Members/ As required**	**Yes**
Pay Advice	✓				**Pensioners/ Initial and then three times a year**	**Yes**
Scheme booklet	✓	✓	✓		**Prospective Scheme Members/ As required**	**Yes**
Corporate Induction				✓	**Prospective and Active Scheme Members/ As required**	**Yes**
Correspondence	✓	✓			**All/ As required**	**Yes**
Team meetings				✓	**ISS Pension Team/ Monthly**	**Yes**
Seminars				✓	**ISS Pension Team and Fund Management/ As required**	**Yes**
Training				✓	**ISS Pension Team, Fund Management, Pension Committee Members/ As required**	**Yes**
Roadshows				✓	**Prospective and Active Scheme Members/ As required**	**Yes (Automatic Enrolment)**

Pre-retirement Courses				✓	**All employees/ As required**	**Yes**

Internet
The fund has established it's own website containing Scheme details, Newsletters, factsheets, forms and other literature. There is also links to other organisations relevant to Scheme members, e.g. Directgov, the LGPS national website, Audit Commission and the Pensions Regulator.

The Council website has a Pension Fund page which has a number of strategies and financial information for pension fund members to view.

Intranet
The Council's Intranet area contains a link to the fund website.

Appropriate staff have been enabled to use the corporate network in order to access the internet.

Other

- **i)** Pension team members, together with HR and Payroll teams, attended recruitment days to help streamline the processing of new starters for two major recruitment exercises.
- **ii)** The Council actively participates in the Audit Commission National Fraud Initiative which identifies potential fraud via data matching information on the systems of various organisations.
- **iii)** The Pension Administration team are members of the CIPFA Benchmarking club, and team members attend the Benchmarking Steering Groups and review meetings.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no financial implications arising directly from this report. The review of the Communications Strategy will ensure that the London Borough of Havering as the administering authority is compliant with regulations.

Delivering the communications strategy is a cost to the fund. The Pensions Team will analyse the costs and benefits of all our future communication activities with a view to using the most efficient and effective methods, subject to appropriate systems to facilitate efficient communication methods.

Legal implications and risks:

None arise from this report.

Human Resources implications and risks:

None arise from this report.

Equalities implications and risks:

None arise from this report.

BACKGROUND PAPERS

Communications Strategy (November 2010)

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DRAFT COMMUNICATION STRATEGY 2013 - 2015

INTRODUCTION

The Local Government Pension Scheme (LGPS) continues for now as a final salary pension scheme. The LGPS will move to a Career Average Revalued Earnings (CARE) basis from April 2014 and the London Borough of Havering Pension Fund (LBH) needs to prepare for the communications challenges that a change of this magnitude will bring.

The focus of this Communications Strategy is to ensure that our membership know and understand their benefits (past and future) and that our communications remain effective and accessible to all. To achieve this in the face of the challenges to come will require reviewing and increasing the effectiveness with which we communicate with the Fund membership and stakeholders.

An effective communications strategy is vital for any organisation which strives to provide a high quality, cost effective and consistent service to its customers.

The scheme stakeholders include:

- COMMITTEE MEMBERS
- EMPLOYERS including
    - LONDON BOROUGH OF HAVERING
    - SCHEDULED BODIES
    - ADMITTED BODIES
- SCHEME MEMBERS
    - ACTIVE MEMBERS (CONTRIBUTORS)
    - RETIRED MEMBERS AND DEPENDENTS
    - DEFERRED MEMBERS
    - PENSION CREDIT MEMBERS
- PROSPECTIVE SCHEME MEMBERS
- OFFICERS WORKING IN THE ISS PENSION TEAM AND FUND MANAGEMENT
- INVESTMENT FUND MANAGERS
- OTHER BODIES
    - TRADE UNIONS
    - ACTUARIES
    - LEGAL ADVISER
    - AVC PROVIDERS
    - PENSION ADMINISTRATION SOFTWARE PROVIDER
    - INVESTMENT ADVISOR

Set out in this document are the key communication priorities, the mechanisms and format which will be used to meet those communication needs.

The fund aims to use the most appropriate communications medium for the audiences receiving the information. This may involve using more than one method of communication, with methods of communication being kept under review.

The frequency of communications and publicity is detailed in the relevant sections below where already determined, otherwise information will be provided in the most effective, economic and timely manner.

COMMUNICATION PRIORITIES

There are four areas of significant change and challenge that will drive the communication strategy during the period 2013 – 2015:
i) Automatic Enrolment;
ii) the introduction of the new CARE pension scheme from April 2014;
iii) the Triennial Valuation;
and
iii) procuring a new pension software system in readiness for the 2014 pension changes.

Therefore, the overall focus for the Strategy will be '**Get ready for new challenges'**.

The key actions required to deliver the focus of the strategy are detailed below, these will be the basis of the Communication Strategy monitoring.

The key actions will be -

Action 1 – 'Get ready for new challenges' for active members:

- review employee communications methods to ensure that they are efficient as well as effective
- promote use of the LBH pension website, www.yourpension.org.uk/handr and the Council's Pension Fund pates, www.havering.gov.uk/Pages/Services/Pension-fund.aspx
- explore development of member online access to the pension administration system in line with ISS self service
- explore the development of member online benefit statements in line with ISS self service
- support the Pension Team staff in developing communication skills through training, support and on the job training to increase their overall skills and knowledge

Action 2 – 'Get ready for new challenges' for employers:

- maximise the use of the newly developed Pensions Team employer communication database
- distribute material for employers to issue to employees
- work with employers to ensure they communicate effectively and efficiently with their employees
- continually review and improve the material and service available to employers via the LBH pension website, www.yourpension.org.uk/handr, and the Council website, www.havering.gov.uk/Pages/Services/Pension-fund.aspx
- collate Employer Discretion Documents
- explore online access for scheduled and admitted bodies to automate interfaces and updates, reducing administrative overheads
- regular meetings with Scheme Employers
- allocated Specialist Senior Transactional Agent to each employer as employer liaison officers

Action 3 – 'Get ready for new challenges' for pensioners and deferred members:

- explore development of member online access to the pension administration system in line with ISS self service

COMMUNICATION RESPONSIBILITIES AND METHODS

The provision of timely and relevant information to stakeholders will be key to managing the expected increase in demand for information and it is important that we start to manage these expectations in resource (ie staff time) terms as things continue to change.

The most efficient form of communication channel is on-line self-service and the least efficient channel is face-to-face, although the customer profile dictates the most effective communication channel.

A review of the effectiveness and efficiency of all communication channels will take place, with an aim of developing the more efficient channels. The channels on order of efficiency are:

- on-line self-service
- websites
- anticipating and targeting appropriate information to members via e-communication routes
- anticipating and targeting appropriate information to members via hardcopy distribution
- responding within set targets to incoming email (generic inbox)
- responding within set targets to incoming phone calls (generic phone number)
- roadshows for groups of Fund members
- meeting Fund members individually face-to-face
- regular meetings with External Employers (joint meetings and individual surgeries)
- employer newsletters and electronic updates

The Pensions Team will analyse the costs and benefits of all our future communications activities with a view to using the most efficient and effective methods, subject to appropriate systems to facilitate efficient communication methods with more members of the scheme than is the case at present. In this way, we plan to be ready for the new challenges when more detail of the new scheme is released by the Government and the demand for information will be at a peak.

PENSION COMMITTEE MEMBERS

The Fund management and administration decisions have been delegated under the Council's constitution to the Pensions Committee.

Knowledge building and training is provided via the Fund's Officers, advisors and external experts with regards to investment and administration matters.

Admitted and Scheduled Bodies who have members in the Fund are represented at the Pensions Committee meetings by one of the employers of the fund who acts on behalf of all other employers. This position has been assigned voting rights from March 2012. The Trade Unions are also invited, who attend meetings on an observer basis, but whose views are given equal weighting. The Trade Union representatives are also Scheme members.

The work of the Trade Union members is supported by Trade Union representatives

SCHEME EMPLOYERS

Recent Changes
Following the Education Act 2011 there has been a significant growth in scheme employers due to the rising number of Secondary schools converting to Academies in the borough, and this trend is still continuing with Primary school Academies now being formed. The responsibilities for the Academies as separate employers are new and experience so far has demonstrated that support beyond the normal is required to help them meet their statutory functions. The second impact of the new Academies, specifically for the Pension Team, is that the employer base has increased which increases the overall management and monitoring of scheme employers.

Regular Updates
These are issued periodically to all employers electronically. This medium is also used to communicate any issues that are currently under debate. Changes to the Regulations which impact upon the employer's function or their employees are also covered.

Employers' Guide
An Employers Guide is issued to assist the employers in discharging their pension's administration responsibilities. Officers are also available for advice.

This is supplemented by contacting a Specialist Senior Transactional Agent to non-Havering employers, available by telephone or personal visit to assist whenever necessary.

Internet
A microsite for employers is planned to be established from the fund website. All manuals and Scheme literature will be available on this site.

Site Meetings
Meetings with non-Havering Employers take place at their premises, as required. Specifically this has been used as a mechanism for communicating major strategic issues, significant legislation changes and triennial valuation matters.

SCHEME MEMBERS

Internet
Continue to review the content, facilities and links of the Fund website, which contains Scheme details, fact sheets, forms, other literature and links to useful associated websites; and the Council website, which contains a number of strategies and financial information for our members to view.

Pension fund Annual Report and Accounts
The Pension fund communicates with its members via publication of an Annual Report which is available on the Council's website.

A copy of the Fund's accounts is available on the Council's website, included in the Pension Fund's Annual Report, and available on the Fund Website.

Newsletters
Newsletters are issued to members of the Fund, as changes to the scheme occur, and covers current pension topics within the LGPS, specific issues for Havering and the pensions industry in general. These are also archived on the Fund Website.

Benefits Statements
An Annual Benefit Statement is sent direct to the home address of all members who are contributing to the Fund at the previous financial year end.

Benefit Statements are also sent direct to the home address of deferred members where a current address is known.

Scheme Literature
An extensive range of Scheme literature is produced by the Administering Authority and is supplied to employing bodies and Scheme members directly as well as being available on the funds website.

Pay Advices
The Fund no longer issues a pay advice to Scheme pensioners if their net pay varies by more than £1.00. An initial payslip, detailing the first pension payment, will be sent to the home address. Further payslips will only be issued each April, May and October.

Additionally, a statement of earnings detailing gross pay, statutory deductions and net pay will be sent to all pensioners in April for the previous tax year. Pension Increase letters are sent out annually and a P60 will be issued in annually in May as per HMRC deadlines.

The authority is implementing Real Time Information (RTI), which will impact upon year end returns.

Correspondence
The fund utilises the Shared Services contact number and email through Supportworks, together with surface mail and e-mail to receive and send correspondence in accordance with Audit advice and guidance.

Our Aspirations
To offer "self service" to update the scheme member individual records on the pension administration system. This will allow them to access their pension record using a service password security system and to transact a significant proportion of their pensions business without having to enter into formal correspondence. Self service is dependent upon upgrading the pension administration system.

Pension Roadshow
The Fund stages Pensions Roadshows as and when required to communicate with scheme members on changes to the scheme or promote the scheme or specific aspects of it.

Additionally, Pensions Administration Staff attend Pre-retirement courses and recruitment days run by the Council to provide information to staff nearing retirement and joining the Council staff.

PROSPECTIVE SCHEME MEMBERS

Scheme Booklet
All new prospective Scheme members will be provided with an electronic Scheme booklet at the time of their appointment to the London Borough of Havering and are directed to the Fund website.

Intranet
The Fund's Intranet area contains a link to the fund website at www.yourpension.org.uk/handr.

Trade Unions
We will work with the relevant Trade Unions to ensure the Scheme is understood by all interested parties. Training days for branch officers will be provided upon request, and efforts will be made to ensure that all pension related issues are communicated effectively with the Trade Unions.

Pensions Roadshows
As well as being a valuable aid for pensioners and current scheme members, roadshows will be used to target specific non-members with support being enlisted from the DWP and in-

house AVC providers. This will ensure members receive the information required to make an informed choice with regards to their pension provision. Currently roadshows are being delivered to communicate Automatic Enrolment and the proposed pension scheme changes in April 2014.

Corporate Induction Courses
Officers of the Council will attend corporate induction events in order to present to prospective Scheme members the benefits of joining the LGPS.

One-to-One 'Surgeries'
One-to-one surgeries or meetings are also offered to take account of individual queries where a request is received.

OFFICERS WORKING IN THE ISS PENSION TEAM AND FUND MANAGEMENT

Service Management Teams
The Fund is managed by Financial Services and administered by Internal Shared Services whose Senior Officers report to the relevant Heads of Service.

Team Meetings
Office and/or Team Meetings are held on a regular basis.

Group Management Team Meetings – Finance and Commerce
The Heads of Service are members of the Group's Management Team and attend the regular meetings convened by the Group Director. The Heads of Service are able to bring any matters of concern/importance to the attention of the Group Director through this mechanism.

Any necessary information arising from the Group's Management Team Meeting is disseminated within the Services, via Management Team and Team Briefings.

Due to the nature of the investment work and delegation the Pensions Accountant meets with the Group Director, Finance and Commerce as required.

Shared Area
Shared areas give all staff access and contain such information as procedure manuals, core briefings, LGPS circulars etc. This is an effective mechanism for ensuring that information is available to all staff at their work location in a timely manner.

Induction
All new members of staff undergo an induction procedure and an induction/personnel manual is available to all staff.

The Council has introduced a performance appraisal scheme for staff which includes a process for discussing and reviewing personal development. This is supplemented by regular one to one meetings with all staff.

Seminars
Pension Team officers regularly participate at seminars, conferences and specialised targeted training courses.

Pensions Team Leader
The Pensions Team Leader maintains an open-door policy and, within reason, is available to all staff on request.

Pension Fund Accountant
On a similar basis responds to staff and other enquiries. Skills and knowledge is kept up-to-date through participation at seminars and conferences.

INVESTMENT FUND MANAGERS

Day to day contact between the pension fund accountant and the fund managers is maintained. Each fund manager is required at the end of each quarter to present their performance alternately to the Pensions Committee or to officers including the Group Director Finance and Commerce.

OTHER BODIES

Trade Unions
Trade Unions in the London Borough of Havering are valuable ambassadors for the Pension Scheme. They ensure that details of the Local Government Pensions Scheme's availability are brought to their members' attention and assist in negotiations under TUPE transfers in order to ensure, whenever possible, continued access to the Local Government Pension Scheme.

Seminars
Pension Administration Team and Fund Officers regularly participate at seminars and conferences.

CIPFA Benchmarking Club
Annual contribution and membership of the CIPFA Pension Administration benchmarking club. Attendance at Benchmarking Steering Groups and review meetings.

Data Protection
To protect any personal information held on computer, the London Borough of Havering is registered under the Data Protection Act 1998. This allows members to check that their details held are accurate. The Fund may, if necessary, pass certain details to a third party, if the third party is carrying out an administrative function of the Fund, for example, the Fund's AVC provider. Members who wish to apply to access their data on Data Protection Act grounds should contact the London Borough of Havering's Council's Data Protection Officer on 01708-432130.

This authority is under a duty to protect the public funds it administers, and to this end may use information for the prevention and detection of fraud. It may also share this information with other bodies administering public funds solely for these purposes.

Further Information

If you need more information about the Scheme you should contact the Pensions Administration Service at the following address:

Write to us at:
Pensions Team
Internal Shared Services
Central Library, 2nd Floor,
St Edwards Way
Romford
RM1 3AR

Tel: 01708 433333
Fax: 01708 432273
E-Mail: ether
i) sharedservices@havering.gov.uk, or
ii) pensions@havering.gov.uk

Council's website:
www.havering.gov.uk/Pages/Services/Pension-fund.aspx

Fund website:
www.yourpension.org.uk/handr

There is also a number which you can dial direct and get through to the person dealing with individual cases. You will find this on any letter issued by the Fund.

Havering
LONDON BOROUGH

PENSION FUND

COMMUNICATION STRATEGY

NOVEMBER 2010

COMMUNICATION STRATEGY

INTRODUCTION

An effective communications strategy is vital for any organisation which strives to provide a high quality and consistent service to its customers.

There are six distinct groups with whom the Fund needs to communicate:

- COMMITTEE MEMBERS
- SCHEME MEMBERS
- PROSPECTIVE SCHEME MEMBERS
- SCHEME EMPLOYERS
- INVESTMENT FUND MANAGERS
- OTHER BODIES

Set out in this document are the mechanisms which are used to meet those communication needs.

The Fund aims to use the most appropriate communication medium for the audiences receiving the information. This may involve using more than one method of communication.

PENSION COMMITTEE MEMBERS

The Fund management and administration decisions have been delegated under the Council's constitution to the Pensions Committee.

Knowledge building and training is provided via the Fund's Officers, advisors and external experts with regards to investment and administration matters.

Admitted and Scheduled Bodies who have members in the Fund are represented at the Pensions Committee meetings by one of the employers of the fund who acts on behalf of all other employers. The Trade Unions are also invited, who attend meetings on an observer basis, but whose views are given equal weighting. The Trade Union representatives are also Scheme members.

The work of the Trade Union members is supported by Trade Union representatives.

SCHEME MEMBERS

Internet
The Fund is currently establishing an extensive internet area containing Scheme details, Scheme leaflets etc. There will also be links to other organisations relevant to Scheme members, e.g. employers, AVC providers, employers' organisations etc.

Pension Fund Annual Report and Accounts
The Pension Fund communicates with its members via publication of an Annual Report which is available on the Council's website.

A copy of the Fund's accounts are available on the Council's website and included in the Pension Fund's Annual Report

Newsletters
Newsletters are issued to members of the Fund, as changes to the scheme occur, and covers current pension topics within the LGPS, specific issues for Havering and the pensions industry in general.

Benefits Statements
An Annual Benefit Statement is sent direct to the home address of all members who are contributing to the Fund at the previous financial year end.

Benefit Statements are also sent direct to the home address of deferred members where a current address is known.

Scheme Literature
An extensive range of Scheme literature is produced by the Administering Authority and is supplied to employing bodies and Scheme members directly.

Pay Advices
The Fund only issues a pay advice to Scheme pensioners if their net pay varies by more than £1.00. This is utilised as a communication mechanism as well, e.g. Pensions Increase and P60 information is communicated using this medium on an annual basis.

Correspondence
The fund utilises both surface mail and e-mail to receive and send correspondence.

Our Aspirations
A password security system which allows Scheme members to transact a significant proportion of their pensions business without having to enter into formal correspondence.

Pension Roadshow
The Fund stages Pensions Roadshows as and when required to communicate with scheme members on changes to the scheme or promote the scheme or specific aspects of it.

Additionally, Pensions Administration Staff attend Pre-retirement courses run by the Council to provide information to staff nearing retirement.

PROSPECTIVE SCHEME MEMBERS

Scheme Booklet
All new prospective Scheme members will be provided with a Scheme booklet at the time of their appointment to the London Borough of Havering.

Intranet
The Fund's Intranet area will contain specific information for non-joiners. It will highlight the process by which a member should be given the relevant information to make an informed choice, as well as detailing the administrative process that should be followed to "opt out" of the Scheme.

Trade Unions
We will work with the relevant Trade Unions to ensure the Scheme is understood by all interested parties. Training days for branch officers will be provided upon request, and efforts will be made to ensure that all pension related issues are communicated effectively with the Trade Unions.

Pensions Roadshows
As well as being a valuable aid for pensioners and current scheme members, roadshows will be used to target specific non-members with support being enlisted from the DWP and in-house AVC providers. This will ensure members receive the information required to make an informed choice with regards to their pension provision.

Corporate Induction Courses
Officers of the Council will attend corporate induction events in order to present to prospective Scheme members the benefits of joining the LGPS. A "one-on-one" surgery will also be offered to take account of individual queries that may be raised at such meetings.

SCHEME EMPLOYERS

Regular Updates
These are issued periodically to all employers. This medium is also used to communicate any issues that are currently under debate. Changes to the Regulations which impact upon the employer's function or their employees are also covered.

Employers' Guide
An Employers Guide is issued to assist the employers in discharging their pension's administration responsibilities. Officers are also available for advice.

This is supplemented by the allocation of a Senior Pensions Officer to non-Havering employers who is available by telephone or personal visit to assist whenever necessary.

Internet
A microsite for employers will be established. All manuals and Scheme literature will be available on this site.

Site Meetings
Meetings with non-Havering Employers take place at their premises, as required. Specifically this has been used as a mechanism for communicating major strategic issues, significant legislation changes and triennial valuation matters.

PENSIONS FUND AND ADMINISTRATION STAFF

Service Management Teams
The Fund is managed by Financial Services and administered by Internal Shared Services whose Senior Officers report to the relevant Heads of Service.

Team Meetings
Office and/or Team Meetings are held on a regular basis.

Group Management Team Meetings – Finance and Commerce.
The Heads of Service are members of the Group's Management Team and attend the regular meetings convened by the Group Director. The Heads of Service are able to bring any matters of concern/importance to the attention of the Group Director through this mechanism.

Any necessary information arising from the Group's Management Team Meeting is disseminated within the Services, via Management Team and Team Briefings. Due to the nature of the investment work and delegation the Pensions Accountant meets with the Group Director, Finance and Commerce as required.

Intranet
Service intranets give all staff access and contain such information as procedure manuals, core briefings, LGPC circulars etc. This is an effective mechanism for ensuring that information is available to all staff at their work location in a timely manner.

Induction
All new members of staff undergo an induction procedure and an induction/personnel manual is available to all staff.

The Council has introduced a performance appraisal scheme for staff which includes a process for discussing and reviewing personal development. This is supplemented by regular one to one meetings with all staff.

Internet
Appropriate staff have been enabled to use the corporate network in order to access the internet.

E-mails
All staff have been given access to the e-mail facility.

Pensions Manager
The Pensions Manager maintains an open-door policy and, within reason, is available to all staff on request.

Pension Fund Accountant
On a similar basis responds to staff and other enquiries.

INVESTMENT FUND MANAGERS

Day to day contact between the pension fund accountant and the fund managers is maintained. Each fund manager is required at the end of each quarter to present their performance alternately to the Pensions Committee or to officers including the Group Director Finance and Commerce.

OTHER BODIES

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Trade Unions in the London Borough of Havering are valuable ambassadors for the Pension Scheme. They ensure that details of the Local Government Pensions Scheme's availability are brought to their members' attention and assist in negotiations under TUPE transfers in order to ensure, whenever possible, continued access to the Local Government Pension Scheme.

Seminars
Fund Officers regularly participate at seminars and conferences.

Data Protection
To protect any personal information held on computer, London Borough of Havering is registered under the Data Protection Act 1998. This allows members to check that their details held are accurate. The Fund may, if it chooses, pass certain details to a third party, if the third party is carrying out an administrative function of the Fund, for example, the Fund's AVC provider. Members who wish to apply to access their data on Data Protection Act grounds should contact the London Borough of Havering's Council's Data Protection Officer on 01708-432130.

This authority is under a duty to protect the public funds it administers, and to this end may use information for the prevention and detection of fraud. It may also share this information with other bodies administering public funds solely for these purposes.

Further Information

If you need more information about the Scheme you should contact the Pensions Administration Service at the following address:

Write to us at:
Central Library, 2nd Floor,
Park End Road
Romford
RM1 3AR

Tel: 01708 432192/432981
Fax: 01708 432078
E-Mail: pensions@havering.gov.uk

Council's website:
www.havering.gov.uk

There is also a number which you can dial direct and get through to the person dealing with individual cases. You will find this on any letter issued by the Fund.

Havering
LONDON BOROUGH

PENSIONS COMMITTEE 26 March 2013	REPORT

Subject Heading:	Public Service Pensions Bill
CMT Lead	Andrew Blake Herbert
Report Author and contact details:	Contact: Karen Balam Designation: Transactional Manager Telephone: (01708) 432271 E-mail Address: Karen.balam@havering.gov.uk
Policy context:	Superannuation Act 1972
Financial summary:	There are no financial implications arising directly from this report.

The subject matter of this report deals with the following Council Objectives

Clean, safe and green borough	[]
Excellence in education and learning	[]
Opportunities for all through economic, social and cultural activity	[]
Value and enhance the life of every individual	[X]
High customer satisfaction and a stable council tax	[]

SUMMARY

This report provides an update on the draft Public Service Pensions Bill, which is progressing through Parliament and could have significant implications for the London Borough of Havering Pension Fund and Pension Committee.

RECOMMENDATIONS

1 Members note the contents of the briefing report and the potential future implications for the London Borough of Havering Pension Fund of the Public Service Pensions Bill.

2 Members agree further update reports will be received by the Pensions Committee when the Bill is enacted and further guidance is issued, together with a briefing report on the proposed new Local Government Pension Scheme and its impact.

REPORT DETAIL

1 Background

1.1 The Independent Public Sector Pensions Commission, chaired by Lord Hutton, published its report in March 2011. This report (the "Hutton Review") made a number of recommendations for fundamental change to UK public service pension provision.

1.2 The Public Service Pensions Bill ("the Bill") was published by the Government on 13 September 2012 and has now passed through its third House of Lords reading on the 26 February 2013. Should the Bill be enacted, there would be significant changes required to the design and governance of the Local Government Pension Scheme (LGPS).

1.3 It is intended that the powers of the Bill will supersede powers, including those contained in the Superannuation Act 1972, to create schemes for the payment of pensions and other benefits. It provides powers to Ministers to create schemes with a common framework of requirements. The Bill also provides powers to the Treasury to set specific technical details of certain requirements and gives powers to the Pensions Regulator (tPR) to operate a system of independent oversight over the operation of the public sector schemes.

1.4 The common framework for pension arrangements covers the Civil Service, Judiciary, Local Government, teachers, NHS, Fire Services, Armed Forces and members of the police.

1.5 The Bill includes the key recommendations of Lord Hutton's Independent Public Sector Pensions Commission, including:

- The end of final salary benefit arrangements;
- Retirement age linked to State Pension Age (SPA);
- Cost control system to provide affordability and sustainability; and
- Major changes to and strengthening of governance.

2 Future Service Benefit Structure

2.1 The Bill covers only Primary Legislation, the general aspects of Public Service Pensions and not the Secondary Legislation that would be applicable to the individual public service schemes. The Bill confirms that any defined benefits under the new schemes must be provided on a Career Average Revalued Earnings (CARE) basis.

2.2 A CARE scheme is a type of defined benefit arrangement, with the amount of pension payable dependent upon:

- the length of pensionable service;
- career averaged earnings; and
- the scheme accrual rate (the proportion of salary that is received for each year of service).

(A career average scheme matches each year's benefit accrual to earnings in each year rather than the final years' earnings. The earnings figure will be uprated annually in line with prices rather than the actual increase in earnings.)

3 Closure of Current Schemes

3.1 The Bill provides that the existing schemes will be closed to future accrual with effect from 1 April 2014 for the LGPS in England and Wales (from 5 April 2015 for other schemes). The Bill does set out that there will be transitional protection, in that the final salary link is protected for service before the date of change to the new scheme. Furthermore, the Bill enables schemes to provide that members who are a certain number of years from their normal pension age on 1 April 2012 will not see any change to their retirement age, or any decrease in the amount of pension they receive on retirements. However, the Bill does not specify how members will be treated in moving from the old to new scheme or how the old scheme will be closed, although the Lords amendments of 27 February 2013 has changed the term from "closure" in clause 18 and Schedule 7 and replace them with references to the subsections in clauses 16 and 28 which restrict the accrual of future benefits under existing schemes.

4 Capping Costs and Revaluation

4.1 One of Lord Hutton's key recommendations was a scheme-specific mechanism to ensure costs are kept below specified levels. The basis for such an "employer cost cap" is set out in the Bill, with the intention being that the Treasury will make regulations to amend schemes where necessary to keep costs within the set margins.

4.2 Further to this, the Bill gives the Treasury powers to impose what data and assumptions are to be used in valuations and how a valuation is to be undertaken, including when setting the employer cost cap.

4.3 The Bill does not specify the revaluation rate but suggests that revaluation could lead to an increase or decrease in the level of benefit and also allows scheme regulations to provide for the reduction of accrued benefits as part of the employer cost cap.

4.4 LGPS funds have not previously had such oversight from the Treasury when completing their triennial actuarial valuations. CIPFA has expressed its criticism of this specific proposal.

“The LGPS is unique amongst UK public sector pension schemes in that there is a clear accountability link between local fund administrators and local Council Tax payers. The introduction of a third party that can influence funding strategy and the process by which employer contributions are set weakens that link and restricts the ability of the local fund administrator to manage the fund flexibly to suit local circumstances.” (CIPFA Pensions Panel Chair, Bob Summers, September 2012)

5 Governance

5.1 The Bill sets out new, stronger, provisions for the overall governance and regulation of the public service pension schemes. Each scheme will have its own ‘manager’ with responsibility for scheme administration. That manager could be an individual, eg the Group Director of Finance & Commerce, or it could be the Pensions Committee or the Council as a whole, the legislation leaves a substantial degree of latitude which will probably be defined more by regulations and guidance. There will also be a Pension Board whose task is to to assist the manager (existing Administering Authority role). Half of the members of the Pension Board will be representatives of the employer(s) and half will be representatives of scheme members. The Pension Board remit will be to ensure compliance by the Manager with legislation, codes of practice and regulatory issues. The Bill also extends the remit of tPR to all public service schemes, with the Regulator able to issue codes of practice in respect of the public service schemes and require scheme managers to implement internal control procedures in respect of the administration and management of the schemes. There is also a requirement for a Scheme Advisory Board which advises on the need for changes to the scheme. In the LGPS case that may be one national board.

5.2 There are three significant impacts for current Local Authority Pension Committees:

5.2.1 The extent of their remit may change substantially, either having responsibility as manager of the scheme or as the Pension Board as a quite differently constituted body. Pension board members will be subject to similar duties of knowledge and understanding as trustees are in private sector occupational pension schemes.

5.2.2 The regulator may, if it considers it desirable for the purpose of ensuring compliance with pension legislation, appoint a person to assist the pension board of a public service pension scheme in the discharge of its functions. The pension board must have regard to the advice of the person appointed. The costs of the person appointed must be met by the scheme manager of the scheme.

5.2.3 The Lords amendments of 12 February 2013 include a change in the representation of the Pension Board, with Pension Boards having an equal number of employers and pension scheme members.

5.3 Communities and Local Government will be the responsible authority for the Local Government Pension Scheme in England and Wales. The role of the Pension Board is an extension to the current role of the Pensions Committee/Panel or National LGPS Board).

6 Access to Public Service Pension Schemes (Participating Employers)

6.1 Subject to the details and terms for individual scheme regulations, the Bill contains provision to enable public service pensions schemes to allow non-public service workers to participate in the scheme which reflects the scope for private sector contracts to be admitted to the public service schemes.

7 Timescales

7.1 There is a protected period of 25 years from 1 April 2015 during which changes cannot be made, for example to benefit accrual or contribution rates unless there is a consultation with affected persons with a view to reaching agreement on the changes. This procedure does not apply where changes are needed to keep the schemes within the employer cost cap.

7.2 The Bill is expected to be enacted during 2013. Individual schemes will then issue the regulations specifying benefit structures and governance arrangements ahead of the latest commencement date for the new schemes – being 1 April 2014 for the LGPS in England and Wales and 6 April 2015 for all other schemes. Proposals for the new LGPS in England and Wales have already been published, and will be the subject of a further report to the Committee.

8 Risks

8.1 There are four risks that it is relevant to highlight which could undermine the viability of the London Borough of Havering pension fund:

- Valuations: There is an overall risk to scheme affordability and the setting of contribution rates, which could be flawed due to the Treasury setting the specification on data, methodology and assumptions to be used in valuations. Valuations are currently conducted by private sector actuaries on the basis of actual data on membership, investments and contributions. Applying common assumptions is not appropriate for each fund as each fund is unique in its membership makeup, demographics and investment strategy.
- Scheme Closure: the Bill lacked clarity on how the closure of the existing schemes would operate. Closure of a Local Government Pension Scheme could lead to demand for deficits to be paid off immediately, leaving some employers in severe financial hardship; fund closure would also radically alter investment strategy. The Lords amendments of February 2013, do appear to have gone some way to providing clarity.

- Retrospective changes: the Bill does allow for revaluation to lead to a decrease in the level of benefit for scheme members, although controls around this have been included in the Lords amendments. The risk to the fund is that any threat of revaluing benefits downwards could lead to active scheme members opting out of the fund in the event of a downward benefit forecast as the basic principle of accrued benefits being protected has been removed.
- Communications: the communication challenge of explaining the impact of moving from a final salary linked pension scheme to a CARE scheme with deferment of existing benefits, although still linked to a final salary, cannot be underestimated.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no financial implications arising directly from this report. Future legislative change to the design of the Local Government Pension Scheme, however, will have financial consequences for the London Borough of Havering and participating employers. These are currently unknown and will be addressed in future reports to the Pensions Committee.

Legal implications and risks:

The Public Service Pensions Bill 2013 will be enacted during 2013. Individual schemes will then issue the regulations specifying benefit structures and governance arrangements ahead of the new scheme commencement date. The Local Government Pension Scheme (England and Wales) commencement date is 1 April 2014.

The extension of the role of the Pension Regulator will assessed and reported to the Pension Committee when the Bill is enacted.

Human Resources implications and risks:

There are no direct Human Resource implications arising from this report.

Equalities implications and risks:

There are no adverse equalities impacts arising from this report.

The Treasury has undertaken a central equalities analysis to inform the key changes being made to public service pension schemes. The Government has considered the (hypothetical and actual) positive and negative impacts of the common provisions that will apply across all public service pension schemes.

The Government does not consider that the common features of the Public Service Pensions Bill will result in any differential impact to persons with the following protected characteristics: disability, ethnicity, age, religion or belief, gender reassignment, pregnancy and maternity, sexual orientation and marriage/civil partnership.

BACKGROUND PAPERS

The Public Service Pensions Bill and its progress through Parliament to eventual enactment can be viewed at http://services.parliament.uk/bills/2012-13/publicservicepensions.html.

Proposals for a new LGPS design in England and Wales can be viewed at http://www.lgps.org.uk/lge/core/page.do?pageId=15431012.

Chartered Institute of Public Finance Accountants (CIPFA).

Hymans Roberson Public Service Pensions Bill 2013 briefing.

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE

26 March 2013

REPORT

Subject Heading:	**PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 31 DECEMBER 2012**
CMT Lead:	**Andrew Blake Herbert**
Report Author and contact details:	Debbie Ford Pension Fund Accountant (01708) 432569 debbie.ford@havering.gov.uk
Policy context:	Pension Fund Managers' performances are regularly monitored in order to ensure that the investment objectives are being met.
Financial summary:	This report comments upon the performance of the Fund for the period ended 31 December 2012

The subject matter of this report deals with the following Council Objectives

Clean, safe and green borough	[]
Excellence in education and learning	[]
Opportunities for all through economic, social and cultural activity	[]
Value and enhance the life of every individual	[X]
High customer satisfaction and a stable council tax	[]

SUMMARY

This report provides the Committee with an overview of the performance of the Havering Pension Fund investments for the quarterly period to 31 December 2012. The performance information is taken from the Quarterly Performance Report supplied by each Investment Manager, the WM Company Quarterly Performance Review Report and Hymans Monitoring Report.

The net return on the Fund's investments for the **quarter** to 31 December 2012 was **3.0%.** This represents an out performance of **0.7%** against the combined tactical benchmark and an out performance of **2.5%** against the strategic benchmark.

The overall net return of the Fund's investments for the **year** to 31 December 2012 was **10.5%.** This represents an out performance of **1.3%** against the annual tactical combined benchmark and an out performance of **4.4%** against the annual strategic benchmark.

Global economic data showed signs of stabilisation, particular in the US and China; the Eurozone economy remained mixed. The re-election of President Obama in November offered some clarity politically but markets fell sharply in the immediate aftermath as the focus shifted to the approaching 'fiscal cliff' debate. The fourth quarter was positive for UK equities. In December the Office for Budget Responsibility and the Bank of England revised their growth forecasts downwards and austerity measures are to be prolonged. Index linked gilts returned 4.3% during the quarter, reflecting increased demand for longer dated bonds and outperformed fixed interest gilts.

It is now possible to measure the individual managers' annual return for the new tactical combined benchmark since they became active on the 14 February 2005. These results are shown later in the report.

RECOMMENDATIONS

That the Committee:

1) Considers Hymans performance monitoring report and presentation (Appendix A).
2) Receive a presentation from the Funds UK Equities Manager (Standard Life), the Funds Investment Grade Bonds Manager (Royal London) and the Funds Global Equities Manager (Baillie Gifford).
3) Notes the summary of the performance of the Pension Fund within this report.
4) Considers the quarterly reports provided by each investment manager.
5) Considers and notes any Corporate Governance issues arising from voting as detailed by each manager.
6) Considers any points arising from officer monitoring meetings (section 4 refers.
7) Notes the analysis of the cash balances (paragraphs 2.2 and 2.3 refers).

REPORT DETAIL

1. Background

1.1 A restructure of the fund took place during the first half of 2008 and these changes were reflected in a revised Statement of Investment Principles (SIP) adopted by members in September 2008 and subsequently updated in June 2010 and November 2011. The SIP is currently being amended to reflect the outcomes of the recent Investment Strategy review.

1.2 A strategic benchmark has been adopted for the overall Fund of Gilts + 2.6% (net of fees) per annum. This is the expected return in excess of the fund's liabilities over the longer term. **The main factor in meeting the strategic benchmark is market performance.**

1.3 Individual manager performance and asset allocation will determine the out performance against the strategic benchmark. Each manager has been set a specific (tactical) benchmark as well as an outperformance target against which their performance will be measured. This benchmark is determined according to the type of investments being managed. This is not directly comparable to the strategic benchmark as the majority of the mandate benchmarks are different but contributes to the overall performance. No revisions were made to individual fund manager benchmarks as part of the investment strategy review. However the asset allocation has been revised and in line with the Statement of investment Principles as at November 2011, the asset allocations are shown in the following table against the manager's benchmarks:

Manager and % of target fund allocation	Mandate	Tactical Benchmark	Out performance Target
Standard Life 17%	UK Equities -Active	FTSE All Share Index	2%
State Street (SSgA) 26%	UK/Global Equities - passive	UK- FTSE All Share Index Global (Ex UK) – FTSE All World ex UK Index	To track the benchmark
Baillie Gifford Street 17%	Global Equities - Active	MSCI AC World Index	1.5 – 2.5% over rolling 5 year period
Royal London Asset Management 20%	Investment Grade Bonds	• 50% iBoxx Sterling Non Gilt Over 10 Year Index • 16.7% FTSE Actuaries UK Gilt Over 15 Years Index • 33.3% FTSE Actuaries Index-Linked Over 5 Year Index	0.75%
UBS 10%	Property	IPD (previously called HSBC/AREF) All Balanced Funds Median Index	To outperform the benchmark

Manager and % of target fund allocation	**Mandate**	**Tactical Benchmark**	**Out performance Target**
Ruffer 10%	Multi Asset	Not measured against any market index – for illustrative purposes LIBOR (3 months) + 4%.	To outperform the benchmark

1.4 Changes to the asset allocation will be reflected in a future report, once the amended SIP has been agreed.

1.5 The Committee appointed a Multi-Asset Manager (Ruffer) and a Passive Equity Manager (State Street Global Advisors Limited (SSgA)) in February 2010. Both Managers commenced trading from 8 September 2010.

1.6 The mandate with the Global Equities Manager (Alliance Bernstein) was terminated in February 2011. Assets were transferred to State Street Global Advisors pending further consideration of the investment strategy. The Fund completed a tendering process in the search for a new Global Equity Manager and at a Special Pensions Committee on the 15 December 2011, awarded the mandate to Baillie Gifford. Baillie Gifford commenced trading from April 2012.

1.7 UBS, SSgA and Baillie Gifford manage the assets on a pooled basis. Standard Life, Royal London and Ruffer manage the assets on a segregated basis. Performance is monitored by reference to the benchmark and out performance target. Each manager's individual performance is shown in this report with a summary of any key information relevant to their performance.

1.8 Since 2006, to ensure consistency with reports received from our Performance Measurers, Investments Advisors and Fund Managers, the 'relative returns' (under/over performance) calculations has been changed from the previously used arithmetical method to the industry standard geometric method (please note that this will sometimes produce figures that arithmetically do not add up).

1.9 Existing Managers are invited to present at the Pensions Committee Meeting every six months. On alternate dates, they meet with officers for a formal monitoring meeting. The exception to this procedure is the Multi Asset (Ruffer) and the Passive Equity (SSgA) Managers who will attend two meetings per year, one with Officers and one with Pensions Committee. However if there are any specific matters of concern to the Committee relating to the Managers performance, arrangements can be made for additional presentations.

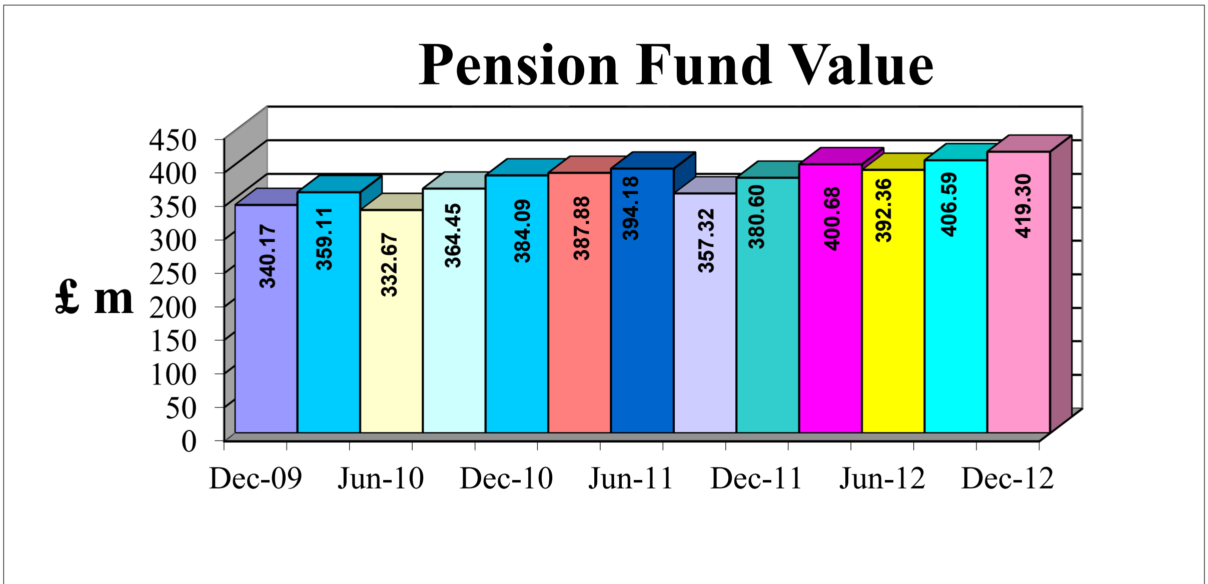
1.10 Due to the change in date of the December committee meeting the scheduled presentation from Baillie Gifford will be given at this meeting

1.11 Hyman's performance monitoring report is attached at **Appendix A. (Exempt report)**

2. Fund Size

2.1 Based on information supplied by our performance measurers the total combined fund value at the close of business on 31 December 2012 was **£419.30m**. This valuation differs from the basis of valuation used by our Fund

Managers and our Investment Advisor in that it excludes income. This compares with a fund value of £406.59m at the 31 September 2012; an **increase** of £12.71m. The movement in the fund value is attributable to an increase in cash of £0.17m and an increase in fund performance of £12.54m. The internally managed cash level stands at **£2.63m** of which an analysis follows in this report.



Source: WM Company (Performance Measurers)

2.2 An analysis of the internally managed cash balance of **£2.63m** follows:

CASH ANALYSIS	**2010/11**	**2011/12 Updated**	**2012/13 31 Dec 12**
	£000's	£000's	£000's
Balance B/F	**-4763**	**-8495**	**-1194**
Benefits Paid	25702	31123	23558
Management costs	1895	1606	1163
Net Transfer Values	-3053	-58	-1250
Employee/Employer Contributions	-28333	-30194	-21272
Cash from/to Managers/Other Adj.	176	4869	-3603
Internal Interest	-119	-45	-31
Movement in Year	**-3732**	**7301**	**-1435**
Balance C/F	**-8495**	**-1194**	**-2629**

**The 2011/12 figures are based upon an interim figures and are subject to further adjustments.*

2.3 As agreed by members on the 27June 2012 a cash management policy has now been adopted. The policy sets out that should the cash level fall below the de-minimus amount of £2m this should be topped up to £4m. This policy includes drawing down income from the bond and property manager.

2.4 In October 2012 rental income totalling £1.6m was transferred to cash from the property manager. Whilst the SIP is under review disinvesting from managers will be discussed before disinvestment is undertaken.

3. Performance Figures against Benchmarks

3.1.1 The overall net performance of the Fund against the new **Combined Tactical Benchmark** (the combination of each of the individual manager benchmarks) follows:

	Quarter to 31.12.12	**12 Months to 31.12.12**	**3 Years to 31.12.12**	**5 years to 31.12.12**
Fund	3.0%	10.5%	7.0%	2.3%
Benchmark return	2.3%	9.0%	7.9%	4.1%
*Difference in return	0.7%	1.3%	-0.8%	-1.8%

Source: WM Company

**Totals may not sum due to geometric basis of calculation and rounding.*

3.1.2 The overall net performance of the Fund against the **Strategic Benchmark** (i.e. the strategy adopted of Gilts over 15 years + 2.6%) is shown below:

	Quarter to 31.12.12	**12 Months to 31.12.12**	**3 Years to 31.12.12**	**5 years to 31.12.12**
Fund	3.0%	10.5%	7.0%	2.3%
Benchmark return	0.5%	5.9%	15.2%	11.8%
*Difference in return	2.5%	4.4%	-7.1%	-8.8%

Source: WM Company

**Totals may not sum due to geometric basis of calculation and rounding.*

3.1.3 The following tables compare each manager’s performance against their **specific (tactical) benchmark** and their **performance target** (benchmark plus the agreed mandated out performance target) for the current quarter and the last 12 months.

QUARTERLY PERFORMANCE (AS AT 31 DECEMBER 2012)

QUARTER	Standard Life	Royal London	UBS	Ruffer	SSgA	Baillie Gifford[1]
Return (performance)	7.8	3.4	-8.0	2.5	2.5	2.9
Benchmark	3.8	2.6	-0.4	0.1	2,5	2.2
***Over/(Under) Performance vs. Benchmark**	**3.9**	**0.8**	**-7.6**	**2.4**	**0.0**	**0.7**
TARGET	4.3	2.8	n/a	n/a	n/a	n/a
*** Over/(Under) Performance vs. Target**	**3.3**	**0.6**	**n/a**	**n/a**	**n/a**	**n/a**

Source: WM Company, Fund Managers and Hymans

[1] Trading commenced 25 April so not trading for the full period. Target is measured using annualised data, so not yet applicable.

* Totals may not sum due to geometric basis of calculation and rounding.

ANNUAL PERFORMANCE (LAST 12 MONTHS)

ANNUAL	Standard Life	Royal London	UBS	Ruffer	SSgA	Baillie Gifford
Return (performance)	20.3	9.8	-8.8	2.4	11.9	n/a
Benchmark	12.3	7.7	0.2	0.8	11.9	n/a
***Over/(Under) Performance vs. Benchmark**	**7.1**	**2.0**	**-9.0**	**1.6**	**0.0**	**n/a**
TARGET	14.3	8.5	n/a	n/a	n/a	n/a
*** Over/(Under) Performance vs. Target**	**5.2**	**1.3**	**n/a**	**n/a**	**n/a**	**n/a**

Source: WM Company, Fund Managers and Hymans

- Totals may not sum due to geometric basis of calculation and rounding.
- Baillie Gifford inception 25 April 2012

4. Fund Manager Reports

4.1. UK Equities (Standard Life)

a) Representatives from Standard Life are due to make a presentation at this committee therefore a brief overview of their performance as at 31 December 2012 follows.

b) The value of the Standard Life portfolio fund saw an increase in value of 8.01% since the previous quarter.

c) Standard Life outperformed the benchmark in the quarter by 3.9% and outperformed the target in the quarter by 3.3%. Since inception they are below benchmark by -0.6% and -2.6% against the target.

4.2. UK Investment Grade Bonds (Bonds Gilts, UK Corporates, UK Index Linked, UK Other) – (Royal London Asset Management)

a) Representatives from Royal London are due to make a presentation at this committee therefore a brief overview of their performance as at 31 December 2012 follows.

b) The value of the Royal London portfolio saw an increase of 3.39% on the previous quarter.

c) Royal London outperformed the benchmark by 0.8% and outperformed the target in the quarter by 0.6%. Since inception they are above benchmark by 0.6% and below the target by -0.1%.

4.3. Property (UBS)

a) In accordance with agreed procedures officers met with representatives from UBS on the 13 February 2013 at which a review of their performance as at 31 December 12 was discussed.

b) The value of the UBS portfolio fund saw a decrease in value of 8.28% since the previous quarter.

c) UBS underperformed the benchmark in the quarter by -7.6% and underperformed the benchmark in the year by -9.0%. UBS explained that the underperformance is due to the valuations including a 'marked to sell' across the portfolio due to the redemption queue.

d) The discussions at the meeting focussed on the current situation with regard to the liquidation notice issued on the 31 January 2013 and the events leading up to this.

e) At the EGM there was a 97% support to move the redemption notice period from 12 to 24 months. However only 50% of those already in the redemption queue supported this change and a 75% threshold is required.

f) Since mid-2012, UBS Triton redemption queue has grown to more than £400m, now reflecting 60% of the total £694m net asset value (as at 31 December 2012).

g) UBS has implemented a sales programme to meet the redemption requests, however the volume of sales required to meet the requests has a significant impact on the value of the Fund's property assets and its overall performance.

h) Unless the redemptions reduce by £150m by the 30 April 2013 the fund will be liquidated. The redemption requests are covered up to the end of July.

i) If liquidation of the fund goes ahead this will take affect from the 1 August 2013 and this will remove the notice period for those in the queue already and an orderly sales programme will be put in place. The wind-up will see all investors being paid out on a pro-rata basis over a period of 3 to 5 years.

j) As at the date of the meeting UBS explained that they are having on-going discussions with investors to revoke redemption notices

k) The number of properties in the fund currently stands at 36.

l) UBS were asked to explain how the fund will look if it continues. They have two strategies in place depending on how many sales will need to be made to meet redemptions. The retained portfolio post £250m sales will have 22 properties and post £400m sales 19 properties will remain. They plan to sell off the shopping centre units and retain the higher yielding industrial properties. Reducing the number of shopping centre units would also reduce the void rate.

m) The void rate as at 31 December 12 was 6.2% against a benchmark 10.5%. UBS state this will reduce to below 4% post sales programme.

n) No whistle blowing issues or governance was reported.

4.4. Multi Asset Manager (Ruffer)

a) In accordance with agreed procedures officers will only meet with representatives from Ruffer once in the year with the other meeting to be held with members. Ruffer attended their last meeting with members at the 27 June 12 Pensions Committee meeting. Officers met with representatives from Ruffer on the 13 February 2013 at which a review of their performance as at 31 December 12 was discussed.

b) The value of the Ruffer portfolio fund saw an increase in value of 2.81% since the previous quarter.

c) At the time of the meeting the value of the portfolio at the end of January 13 was reported as £61,907,182. This includes the £20m withdrawn from the passive equities manager (SSGA) and transferred to Ruffer in two tranches.

d) Ruffer had outperformed the benchmark in the quarter by 2.4% and outperformed the benchmark in the year by 4.2%.

e) The main drivers for performance were due to equity markets remaining buoyant; Japanese holdings surged on hopes of further Quantitative Easing (QE) following the election of Prime Minister Abe.

f) One of the largest negative contributions came from having exposure to Gold through equities rather than gold bullion. Gold equities rallied in the summer in anticipation of further QE, but surrendered much of these gins during the fourth quarter.

g) Ruffer were asked to explain any investment strategy changes and they went on to explain the following:

h) Following the open-ended nature of the US QE announcement until further notice, Ruffer thought that the 25-30% dollar exposure in the portfolio was too high and reduced it in October to around 15% – big enough to help protect the portfolio in a market setback, small enough to bear the pain if the dollar slowly weakens.

i) Ruffer believes that there is now a risk that if unemployment falls more quickly than expected in the US, bond yields could rise, which would impact their short-dated index-linked bonds. To safeguard these positions, they have bought some derivative protection, a call option, which rises in value if nominal yields rise, but importantly allows them to maintain the inflation exposure of the index-linked bonds, vital since the Fed's switch to an unemployment target further risks an outcome of higher inflation.

j) They also mentioned the change to the way they have exposure to derivatives (for example, as above). Any derivative exposures that Ruffer has acquired have been placed in a wrapper called a 'warrant' (buying shares from a company at a later date and for a specific price), to aid dealing and liquidity. Going forward, these will be housed in a new vehicle called Ruffer Protection Strategies, to improve further their efficiency and risk management. After the meeting Ruffer sent a briefing explaining this vehicle.

k) No whistle blowing issues or governance was reported.

4.5. Passive Equities Manager (SSgA)

a) In accordance with agreed procedures officers will only meet with representatives from SSgA once in the year with the other meeting to be held with members. SSgA met with members on the 12 December 2012 and officers last met with representatives from SSgA on the 15 May 2012.

b) The value of the State Street portfolio increased by 2.48% compared to the previous quarter.

c) As at the end of January 13 the value of the SSgA portfolio was £103,556,316.04. This reflects the £20m that was transferred to the Multi Asset Manager (Ruffer.

d) As expected the portfolio performed in line with the benchmark over the quarter.

4.6. Global Equities Manager (Baillie Gifford)

a) In accordance with agreed procedures officers met with representatives from Baillie Gifford on the 13 February 2013 at which a review of their performance as at 31 December 12 was discussed.

b) Due to the change of date of the December Committee meeting Baillie Gifford will give its first presentation at this meeting with members, which will cover a review of performance since inception.

c) The value of the Baillie Gifford portfolio fund saw an increase in value of 2.87% since the previous quarter.

d) Baillie Gifford had outperformed the benchmark in the quarter by 0.7% and outperformed the benchmark in the year by 0.1%.

e) Baillie Gifford has returned 5.4% since inception (net of fees) in line with their benchmark. They returned 2.9% for the quarter, outperforming the benchmark by 0.5%.

f) Outperformance was helped by some progress on eurozone crisis and US 'fiscal cliff'. Key drivers of performance were that eight out of the top ten stock contributors were linked to US recoveries. Main detractors from performance were Brazilian Oil Company OGX.

g) Current positioning of the portfolio has holdings in Growth Stalwarts (strong Brands) 23%, Rapid Growth (fastest growth) 24%, Cyclical Growth (longer term performance) 38% and Latent Growth (stocks most out of favour with the markets) 15%.

h) Baillie Gifford confirmed that there had been no strategy changes but they were focussed on growth and in particular the potential growth in technology stocks. Baillie Gifford were asked if there was a risk of market saturation which will stifle growth but they are confident that this is still an immature market and have added exposure to technology stocks within the last six months. They purchased stocks from Visa, TripAdvisor, Terradyne and Dolby Laboratories. They increased their holdings in Tokyo Electron and Life Technologies.

i) Baillie Gifford's outlook for the portfolio over the longer term indicates that bouts of volatility may continue but believes this provides opportunity for stock pickers. They also stated that there are more buy than sell ideas coming from the research team. Baillie Gifford were asked whether this implied that they were generally optimistic about equity markets and global recovery and they responded by explaining that their philosophy is about being optimistic about individual companies rather than sectors or countries. They will continue to search for companies which can grow even if the economic recovery is slow.

j) Baillie Gifford reiterated that their investment philosophy as focusing on the longer term and believe in having patience, making investment not speculation and seek to turn time and volatility to their advantage.

k) No governance or whistle blowing issues were reported.

5. Corporate Governance Issues

The Committee, previously, agreed that it would:

1. Receive quarterly information from each relevant Investment Manager, detailing the voting history of the Investment Managers on contentious issues. This information is included in the Managers' Quarterly Reports, which is available for scrutiny in the Members Lounge.

2. Consider a sample of all votes cast to ensure they are in accordance with the policy and determine any Corporate Governance issues arising.

3. Receive quarterly information from the Investment Managers, detailing new Investments made.

- Points 1 and 3 are contained in the Managers' reports.

- With regard to point 2, Members should select a sample of the votes cast from the voting list supplied by the managers placed in the Member's room which is included within the quarterly report and question the Fund Managers regarding how Corporate Governance issues were considered in arriving at these decisions.

This report is being presented in order that:

- The general position of the Fund is considered plus other matters including any general issues as advised by Hymans.

- Hymans will discuss the managers' performance after which the particular manager will be invited to join the meeting and make their presentation. The managers attending the meeting will be from:

  Standard Life, Royal London and Baillie Gifford

- Hymans and Officers will discuss with Members any issues arising from the monitoring of the other managers.

IMPLICATIONS AND RISKS

Financial Implications and risks:

Pension Fund Managers' performances are regularly monitored in order to ensure that the investment objectives are being met and consequently minimise any cost to the General Fund.

Legal Implications and risks:

None arising directly

Human Resources Implications and risks:

There are no immediate HR implications. However longer term, shortfalls may need to be addressed depending upon performance of the fund.

Equalities and Social Inclusion Implications and risks:

None arising directly

BACKGROUND PAPERS

Standard Life Quarterly report to 31 December 2012
Royal London Quarterly report to 31 December 2012
UBS Quarterly report to 31 December 2012
Ruffer Quarterly report to 31 December 2012
State Street Global Assets reports to 31 December 2012
The WM Company Performance Review Report to 31 December 2012
Hyman's Monitoring Report to 31 December 2012

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE **26 March 2013**	**REPORT**

Subject Heading:	**REVIEW OF THE STATEMENT OF INVESTMENT PRINCIPLES**
CMT Lead:	**Andrew Blake Herbert**
Report Author and contact details:	Contact: Debbie Ford Designation: Pension Fund Accountant Telephone: (01708) 432569 E-mail address: Debbie.ford@havering.gov.uk
Policy context:	Regulation 12 (1) of the LGPS (Management and Investment of Funds) Regulations 2009 requires an administrative authority to keep this document under review
Financial summary:	No financial implications

The subject matter of this report deals with the following Council Objectives

Clean, safe and green borough	[]
Excellence in education and learning	[]
Opportunities for all through economic, social and cultural activity	[]
Value and enhance the life of every individual	[X]
High customer satisfaction and a stable council tax	[]

SUMMARY

In line with the Local Government Pensions Scheme Regulations and good practice the London Borough of Havering as an administrating authority undertakes a review of the Statement of Investment Principles (SIP). This report sets out how the review was undertaken and highlights where or if changes were necessary.

RECOMMENDATIONS

That the committee:

1. Consider and agree the proposed amendments to the SIP (**Appendix A**).

2. Consider and agree to the administrative authority's position in respect of reporting compliance against the Myner's investment principles (**Appendix B**).

3. Consider and agree the timetable for implementing proposed changes to the SIP. **(Appendix C - EXEMPT**). - This appendix is excluded from public publication due to the commercially sensitive information and will be disclosed and discussed with the relevant fund managers once timetable has been agreed.

4. In considering the timetable for the implementing the proposed changes to the SIP to also consider a proposal for rebalancing the equity exposure as outlined in **Appendix D - Exempt.**

REPORT DETAIL

1. BACKGROUND

1.1 LPGS (Management and Investment of Funds) Regulations 2009 12(1) states that an administrating authority must prepare, maintain and publish a written statement of the principles governing its decision about the investment of fund money (this is known as Statement of Investment Principles).

1.2 The regulations, paragraph 12(3) also state that administrating authorities must prepare and publish a statement which states the extent to which an administrating authority complies or does not comply with guidance issued by the secretary of State. Where it does not comply it must state reasons for non-compliance. (This is known as the Myner's principles).

1.3 Guidance as issued from the Secretary of State will be the guidance as published by the Chartered Institute of Public Finance and Accountancy (CIPFA) on 11 December 09 called 'Investment decision making and disclosure'.

1.4 The regulations as revised came into force with effect from the 1 January 2010.

2. Statement of Investment Principles

2.1 The Statement of Investment Principles was last reviewed in November 2011 and an interim amendment was agreed on the 12 December 2012, which incorporated the change made to increase the allocation of assets to the Absolute Return Manager. This interim change was agreed pending a final review of the investment strategy.

2.2 The review of the investment strategy was finalised on the 27 November 2012 but included an investigation into the possibility of the Pension Fund investing in local infrastructure projects. Whilst these investigations are on-going the SIP is now being revised to reflect the remaining investment strategy decisions.

2.3 The other employers in the fund were notified of the intended changes to the investment strategy and asset allocation changes at the time the interim change was put to Committee. No views or comments were received at that time.

2.4 The revised SIP has been reviewed in conjunction with considerable input from the Fund's advisor.

2.5 The revised SIP will be distributed to the Fund Managers and other employers once the timetable for implementation has been agreed at this committee meeting.

2.5 The proposed revisions to the SIP can be seen on the track changes version attached as **Appendix A.**

3. Myner's Principles

3.1 Since January 2010 the administrating authority must publish its compliance against a set of six principles.

3.4 Compliance against the six principles will also have to be published within the Pension Fund Annual Report.

3.5 Attached as **Appendix B** is the statement of compliance which shows the fund's position in respect of compliance against the six Myner's principles.

3.6 This illustrates that the fund is compliant with the majority of the six principles but needs to consider the following areas:

a) Principle No.3. Risk and Liabilities

Point (12) The annual report of the pension fund should include an overall risk assessment in relation to the funds activities……This could be done by summarising the contents of a regularly updated risk register, of which an analysis of the risks should be reported periodically to the committee….

The Pension Fund currently does not have an overall risk assessment in the form of a risk register, although risks are considered as part of the monitoring process.

Action required for full compliance: Monitoring risk in the form of a risk register is currently being developed.

4 The proposed timetable for implementing changes to the SIP is attached as **Appendix C**. The proposed timescales mainly incorporates development of a multi asset mandate.

5 **Appendix D** is a report from Hymans which outlines the fund's positioning with regard to rebalancing the fund in light of recent equity gains. Pending appointment of a Multi Asset Manager/s consideration could also be given to rebalancing the fund's position to equities.

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no implications arising directly, however undertaking a review of the Investment Strategy on a regular basis will identify whether the investment objectives are being met and that they remain realistic. One of the Investment Strategy aims is to achieve a funding level of 100% on an on-going basis by 2030 whilst ensuring that investment objectives are being met and minimise any costs to the general fund.

Legal implications and risks:

None arise from this report.

Human Resources implications and risks:

None arise from this report.

Equalities implications and risks:

None arise from this report.

BACKGROUND PAPERS

Background Papers List
LGPS (Management and Investment of Funds) Regulations 2009
CIPFA publication investment decision making and disclosure Dec 09

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APPENDIX A

STATEMENT OF INVESTMENT PRINCIPLES

MARCH 2013

STATEMENT OF INVESTMENT PRINCIPLES

London Borough of Havering Pension Fund ('the Fund')

Background

Legislation

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1999 as amended require Local Authority Pension Funds to prepare a Statement of Investment Principles (SIP) and to review it at least every three years and without delay after any significant change in investment policy. They are also required to set out a Statement of Compliance with the six Principles of Investment Management contained in the CIPFA document "Principles for Investment Decision Making and disclosure" published in December 2009.

In preparing this Statement, the Pensions Committee has considered advice from the Investment Practice of Hymans Robertson LLP.

In relation to the Myners Code of Conduct for Investment Decision Making, the extent of the Fund's compliance with this voluntary code is summarised in the Appendix to this statement.

Purpose and Scope of Scheme

The London Borough of Havering is the Administering Authority for the London Borough of Havering Pension Fund. The Fund is part of the Local Government Pension Scheme (LGPS) and provides death and retirement benefits for all eligible employees and their dependants. It is a final salary defined benefit Pension Scheme, which means that benefits are payable based on the employees' final salary. All active members are required to make pension contributions which are based on a fixed percentage of their pensionable pay as defined in the LGPS regulations. Following the changes to the benefit structure of LGPS Schemes from 1 April 2008, active members previously paying contributions of 6% will pay banded rates between 5.5% and 7.5% depending on their level of full-time equivalent pay. Manual workers in employment before 1st April 1998 who previously had a protected 5% rate are subject to transitional rates.

The London Borough of Havering is responsible for the balance of the costs necessary to finance the benefits payable from the Fund by applying employer contribution rates, determined from time to time (but at least triennially) by the Fund's actuary.

The London Borough of Havering has a direct interest in the investment returns achieved on the Fund's assets, but the benefits paid to pensioners are not directly affected by investment performance.

Pensions Committee

A dedicated group of Councillors (the “Pensions Committee”) has been set up to deal with the majority of the Fund’s investment issues. Major investment decisions will be referred for consideration to the Pensions Committee. The Pensions Committee is made up of elected representatives of The Council who each have voting rights and Trade Union and Employer representatives who have observer status. Scheduled and admitted bodies may appoint one representative who is entitled to attend the meetings of the Pensions Committee on their behalf. Voting rights were assigned to this representative at a Full Council meeting on the 28 March 2012. The Pensions Committee reports to Full Council and has full delegated authority to make investment decisions. The Pensions Committee decides on the investment policies most suitable to meet the liabilities of the Havering Pension Fund and has ultimate responsibility for the governance of the Fund including Investment Strategy.

In particular, the Pensions Committee has duties that include:

- Monitoring the investment performance of the Fund on a quarterly basis;
- Determining overall objectives and strategy;
- Ensuring compliance with legislative requirements;
- Receiving the triennial valuation prepared by the Funds actuary with recommended contribution levels;
- Determining asset allocation and benchmarking;
- Appointment of Investment Managers.

The Pensions Committee is set up under the Local Government Act so that, where necessary, it can exercise decision-making powers. The Pensions Committee meets at least four times per year to hear reports from its officers, investment managers, actuary, investment adviser and performance measurement provider. Additional meetings are held as required in particular to ensure the appropriate Councillor training.

The Pensions Committee also receives and considers advice from executive officers of the Council and, as necessary, from its appointed external investment adviser (including specific investment advice), the actuary to the Fund and its investment managers.

The Regulations state that the Administering Authority must, when formulating its investment policy, have regard to the advisability of investing fund money in a wide range of investments and to the suitability of particular investments and types of investments.

Fund Objective

The purpose of the Fund is:

1. To pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses;
2. To receive monies in respect of contributions, transfer values and investment income.

The overriding aims of the Fund as set out in the Funding Strategy Statement are as follows:

- To ensure that sufficient resources are available to meet all liabilities as they fall due.
- To enable employer contribution rates to be kept as nearly constant as possible and at a reasonable cost to the Scheduled bodies, Admitted bodies and to the taxpayers.
- To manage employers' liabilities effectively.
- To maximise the income from investments within reasonable risk parameters.

For active members, benefits are based on service completed but take account of future salary increases. The value of liabilities is calculated consistently on the on-going basis set out in the formal report of the Fund's Actuary on the actuarial valuation carried out as at 31 March 2010. The fund's performance is monitored quarterly by the Pensions Committee and the funding position is formally reviewed at each triennial actuarial valuation or unless circumstances arise which require earlier action.

Investment Objectives

In framing investment strategy, it is recognised that the Committee has the long-term objective of being 100% funded on the current funding basis (i.e. with liabilities discounted at a rate of 1.8% p.a. in excess of gilt yields). The Committee is currently targeting to achieve this objective over the period to 2030.

The Committee wishes to pursue an investment strategy that retains at least a 60% chance of achieving this long-term objective. They have recognised that, over the ten year period from 31 March 2012, the required return from the Fund's assets to get "back on track" is around 6.5% p.a. more than the growth in the Fund's liabilities.

The Committee acknowledges this objective to be challenging and will therefore use this as a point of reference, rather than an explicit target. The Committee will monitor the development of the Fund's funding level on at least an annual basis to ensure the Fund remains on track and to identify any potential actions needed.

Based on advice from their Investment Adviser and a detailed review of strategy undertaken during 2012, the Committee has adopted a flexible investment strategy that reflects the following principles:

- Growth: The Committee recognises that a high allocation to "growth" assets/strategies is needed to achieve the long-term objective.

- Control: The Committee recognises that diversification can provide some protection against changing market conditions but that systemic risk cannot be diversified. The Committee therefore believes that greater dynamism within the investment strategy is desirable in order that the underlying strategy can be changed in response to changing market conditions.

- Income: The Committee recognises the emerging gap between income and benefit expenditure and hence the need to draw on investment income.

All day to day investment decisions have been delegated to a number of authorised investment managers. The strategic benchmark is reflected in the choice and mix of funds in which the Fund invests. The Fund's benchmark is consistent with the Pensions Committee's collective view on the appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk.

Asset Allocation

To achieve their objectives the Pensions Committee has agreed upon the following benchmark allocation:

Asset class	Current Allocation	Target allocation
UK/Global Equity	55%	24%
Multi Asset strategies	-	35%
Absolute Return strategies	15%	15%
Property	10%	6%
Gilts/Investment grade bonds	20%	20%

Equity allocations will be managed using a combination of active and passive strategies. All other allocations will be managed on an active basis. The multi asset strategies will be permitted to invest in a range of asset classes. However, it is not expected that the underlying asset allocation in these strategies will remain static over time.

The Committee is also considering the introduction of an allocation to local infrastructure. The prospective investment is an amount of up to £15 million. If implemented, the target allocation set out above would apply to the assets excluding local infrastructure.

The underlying target return of this strategy over the next 10 years is at least the return on long dated index linked gilts plus 3.5% p.a, and allows for the expected returns from the asset classes plus a conservative allowance for performance for active manager skill.

Choosing Investments

The Pensions Committee has appointed investment managers who are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The Pensions Committee have given the investment managers specific directions as to the asset allocation but investment choice has been delegated to these managers subject to their respective benchmarks and asset guidelines. The allocation of assets to each manager is as follows:

Mandate (% of fund awarded)	**% of current allocation**	**% of target allocation**	**Manager**	**Benchmark**	**Target**
Property	10%	6%	UBS	IPD All balanced (property) Fund's median	To outperform the benchmark
UK Equities (Active)	17%	*TBD	Standard Life	FTSE All Share	+2% net of fees
Global Equities (Active)	17%	*TBD	Baillie Gifford	MSCI All Countries Index	+2.5% net of fees
Global Equities (Passive)	21%	*TBD	State Street Global Assets	Composite	To track the benchmark (gross of fees)
Investment grade bonds	20%	20%	Royal London Asset Management	Composite	+0.75% net of fees
Absolute Return	15%	15%	Ruffer	UK bank deposit rate	To outperform the benchmark (net of fees)
Multi asset		35%	*TBD	*TBD	*TBD

*TBD (To be decided) this will be completed after the meeting once the SIP timetable and manager notifications have been issued

From time-to-time, particularly when implementing the changes to the strategic asset allocation, when markets are volatile or when dealing costs are high, the Committee may deviate from the long-term strategy on a temporary basis.

The Committee recognises that, while it is impossible to predict short-term market movements, it should use its reasonable judgement in such circumstances. For example, this could be applied with the aim of avoiding excessive dealing costs or reducing the impact of adverse market movements by spreading changes over a number of dealing dates. In doing so, the Committee also recognises that the Fund is intended to meet the liabilities as they emerge over the longer term and hence the normal default position is to be fully invested broadly in line with the strategic benchmark.

Fees

UBS is remunerated by a fixed management fee and the expenses inherent in the management of the pooled property fund. All other fund managers are remunerated by an ad valorem scaled fee based on the market value at quarter end of the assets under management.

Investment Responsibilities

Responsibilities of the Pensions Committee

- Overall investment strategy and strategic asset allocation with regard to the suitability and diversification of investments;
- Monitoring compliance with this Statement of Investment Principles and reviewing its contents;
- Appointing investment managers, an independent custodian, the Fund actuary, external independent advisers and investment adviser;
- Reviewing investment manager performance against established benchmarks on a regular basis;
- Reviewing the investment managers' expertise and the quality and sustainability of their investment process, procedures, risk management, internal controls and key personnel;
- Reviewing policy on social environmental and ethical matters and on the exercise of rights, including voting rights;
- Reviewing the investments over which they retain control and to obtaining written advice about them regularly from the investment adviser. The Pensions Committee will also obtain written advice from the investment adviser when deciding whether or not to make any new investments or to transfer or redistribute assets within the mandates, whether due to market movements or other factors;
- Rebalancing the assets with reference to trigger points. When the Fund allocation deviates by 5% or more from the strategic allocation, the assets will be rebalanced back to within 2.5% of the strategic asset allocation. In exceptional circumstances, when markets are volatile or when dealing costs are unusually high, the Committee may decide to suspend rebalancing temporarily. The priority order for funding rebalancing is to first use surplus cash, followed by dividend and or interest income and lastly using sales of overweighed assets. The Pensions Committee will seek the written advice of the investment adviser with regard to rebalancing and detailed distribution of cash or sale proceeds.

The Pensions Committee is advised by The Council's Executive Officers, who are responsible for:

- Ensuring compliance with statutory requirements and the investment principles set out in this document and reporting any breaches to the Pensions Committee;
- Management of surplus cash, which is lent through the money markets in accordance with the Council's Treasury Management Code of Practice. Performance is measured against the 7-day London Interbank Bid (LIBID) rate;
- Investment accounting and preparing the annual report and accounts of the fund;
- Ensuring proper resources are available for the Council's responsibilities to be met.

The Investment Managers are responsible for:

- The investment of pension fund assets in compliance with the legislation and the detailed investment management agreements;
- Tactical asset allocation around the managers' strategic benchmark as set by the Pensions Committee;
- Stock selection within asset classes;
- Voting shares in accordance with agreed policy;
- Preparation of quarterly reporting including a review of past investment performance, transaction costs and future investment strategy in the short and long term;
- Attending meetings of the Pensions Committee and officers of the council as required.

The Independent Custodian is responsible for:

- Provision of monthly accounting data summarising details of all investment transactions during the period;
- Providing investment transaction details in a timely manner to the independent performance measurers;
- Safe custody and settlement of all investment transactions, collection of income, withholding tax reclaims and the administration of corporate actions;
- The separation of investment management from custody is paramount for the security of the assets of the Fund.

The Actuary is responsible for:

- Undertaking a triennial valuation of the Fund's assets and liabilities and interim valuations as required, including those to enable compliance with the reporting standard FRS17/IAS19;
- Advising on the rate of employer contributions required to maintain appropriate funding levels;
- Providing advice on the admission and withdrawal of employers to the scheme, including external employers following externalisation of services;
- Preparing the Funding Strategy Statement.

The Independent Measurers are responsible for:

- Providing the Pensions Committee and the Council's executive officers with comparative information on the Fund's performance relative to other funds and the relative performance of different types of investments.

The Investment Adviser is responsible for:

- Advising on the investment strategy of the fund and its implementation;
- Advising on the selection of investment managers, and the custodian;
- Providing investment information, investment advice[1] and continuing education to the Pensions Committee and the executive officers;
- Independent monitoring of the investment managers and their activities.

The Investment Adviser is remunerated by way of time cost fees and fixed fees within an agreed annual budget.

The Auditor

- The Fund is audited annually by the auditors appointed by the Audit Commission. The financial year end is 31st March.

The Historic Position of Fund

The Fund is unlikely to be fully funded for several years. This has arisen for a number of reasons including:

- The reduction in the funding level to 75% of liabilities as a result of government regulations prior to the introduction of the community charge:
- The cost of the redundancy programme in the mid 1990's.
  (Note that since 1998 redundancies and early retirements are a charge on departmental cost centres and external employers rather than the Pension Fund).
- Overall investment returns since 1998 falling short of those anticipated in the funding strategy adopted from time to time.
- Longevity improving at a faster rate than anticipated.

At the last triennial valuation (at 31st March 2010) the funding ratio was 61%.

The Administering Authority is obliged to prepare a Funding Strategy Statement (FSS), which is published on the Council's web site at www.havering.gov.uk (select Services select 'Council and Democracy', select Pension Fund). This outlines the method by which the Fund aims to return to an acceptable level of funding. This is expected to be achieved by a combination of increased contributions to the Fund, and achieving good long-term investment returns following the implementation of the new investment strategy in 2012

Review

- The investment strategy is reviewed by the Pensions Committee, at least every three years following the actuarial valuation results or when changes are required.

[1] The Investment Adviser is authorised by and registered with the Financial Services Authority for the provision of investment advice.

- The current review is based on the Actuarial Valuation 2010, a subsequent interim assessment of the valuation in 2012 and a review and on-going advice on asset allocation from the Fund's Investment Adviser during 2012.

Reporting

The investment performance of the individual managers is reported to the Pensions Committee and Officers quarterly. Reports are received from the fund's performance measurers and investment advisers, along with executive summaries from each investment manager including details of any voting undertaken in that quarter.

Risk

The Fund is exposed to a number of risks which pose a threat to the Fund meeting its objectives. The principal risks affecting the Fund are:

<u>Funding risks</u>**:**

- Financial mismatch – 1. The risk that Fund assets fail to grow in line with the developing cost of meeting Fund liabilities. 2. The risk that unexpected inflation increases the pension and benefit payments and the Fund assets do not grow fast enough to meet the increased cost.
- Changing demographics –The risk that longevity improves at a rate faster than that assumed and other demographic factors change increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting Fund liabilities.

The Committee measures and manages financial mismatch in two ways. As indicated above, it has set a strategic asset allocation benchmark for the Fund. It assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark.

In 2012, following the 2010 Actuarial Valuation and a full review of investment strategy commissioned from the Fund's investment adviser, the Pension Committee agreed to revise the investment strategy. The underlying allocation to growth assets following the review is: 80% in a mixture of equities, property and alternative assets/strategies with the remaining 20% in lower volatility bonds. Although this is not in line with a liability-matched position, it is intended to grow the value of the assets at a managed level of risk with manageable long-term costs for the Council.

The Committee keeps under review mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation.

The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

- Concentration - The risk that significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Committee manages asset risks as follows:

It provides a practical constraint on Fund investments deviating greatly from the intended approach by setting itself diversification guidelines and by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrains risk within the Committees' expected parameters.

The use of multi-asset and absolute return mandates recognises the expectation that risk will vary over time. By permitting the investment manager to not only invest in a diverse range of asset classes, but to vary the underlying asset distribution as market conditions change, the Committee expects that the pattern of returns will be smoothed.

By investing across a range of assets, including quoted equities and bonds; the Committee has recognised the need for some access to liquidity in the short term.

In appointing several investment managers and making appropriate use of passive management, the Committee has considered the risk of underperformance by any single investment manager.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee takes professional advice and considers the appointment of specialist transition managers.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers and audit of the operations they conduct for the Fund.

Investments

The powers and duties of the Fund to invest monies are set out in the Local Government Pension Scheme (Management & Investment Funds) Regulations 1998. The Fund is required to invest any monies which are not required to pay pensions and other benefits and in so doing take account of the need for suitable diversified portfolio investments and the advice of persons properly qualified (including officers) on investment matters.

Types of Investment

In broad terms investments may be made in accordance with the investment regulations in equities, fixed interest and other bonds and property and in the UK and overseas markets. The regulations specify other investment instruments may be used e.g. financial futures, traded options, insurance contracts, stock lending, sub-underwriting contracts, although historically it has not been the practice of the Fund to participate in these. Any limitations on the use of these instruments will be included within the Investment Management Agreements (IMA's) or equivalent pooled fund rules.

The investment regulations also specify certain limitations on investments.

The Pensions Committee has set out control ranges and restrictions for the Fund's investments. These control ranges and restrictions have been considered when setting the benchmarks for each Manager.

Investment Management

The Investment Managers are each bound by either an Investment Management Agreement (IMA) or, in the case of investment in pooled funds, the relevant Fund Documentation that takes account of:

- The benchmark set, and the allocation of assets within this benchmark;
- Cash needs;
- Risk tolerances;
- The policies on Corporate Governance and Socially Responsible Investment, given later in this document.

  The Investment Manager must also select the appropriate types of investment as defined in the Regulations.

Investment Manager Controls

The Investment Managers are authorised and regulated by the Financial Services Authority (FSA), and must comply with the regulations contained within the Financial Services and Markets Act 2000 (FSMA 2000). Under these regulations, the manager must ensure that suitable internal operating procedures and risk frameworks are in place. FSMA is designed to provide a Fund such as this with an adequate level of protection, and the Investment Managers are obliged to meet their obligation imposed by this act.

The mandates set for the Investment Managers contain controls to ensure compliance with best practice and regulations. Controls on cash levels and transfers of cash and assets are also set within the IMA's or equivalent pooled fund rules.

Social Environmental and Ethical Considerations

'The Pensions Committee has considered socially responsible investment in the context of its legal and fiduciary duties, and the view has been taken that, while the non-financial factors should not drive the investment process to the detriment of the financial return of the Fund, it is appropriate for the Investment Manager to take such factors into account when considering particular investments.

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

Corporate Governance and Voting Policy

Corporate Governance Policy

'The policy of the Havering Pension Fund is to accept the principles laid down in the Combined Code as interpreted by the Institutional Shareholders Committee 'Statement of Principles'.

In making investment decisions the Council will, through its Pension Fund Investment Manager(s), have regard to the economic interests of the Pension Fund as paramount and as such

1. Will vote at all general meetings of UK companies in which the Fund is directly invested.
2. Will vote in favour of proposals that enhance shareholder value.
3. Will enter into timely discussions with management on issues which may damage shareholders' rights or economic interests and if necessary to vote against the proposal.
4. Will take a view on the appropriateness of the structure of the boards of companies in which the Fund invests.
5. Will take a view on the appropriateness of the remuneration scheme in place for the directors of the company in which the Fund invests

Beyond this, the Council will allow its Investment Manager(s) full freedom with the day to day decision making.

The Pensions Committee will, where appropriate,

6. Receive quarterly information from the Investment Manager, detailing the voting history of the Investment Manager on contentious issues.
7. Consider a sample of all votes cast to ensure they are in accordance with the policy and determine any Corporate Governance issues arising.
8. Receive quarterly information from the Investment Manager, detailing new investments made.'

Stock Lending

The Committee has considered its approach to stock lending, taking advice from its investment adviser. After consideration of that advice, the Committee has decided only to permit stock lending by the Fund's passive equity manager, State Street.

State Street has agreed to indemnify the Fund against any loss arising from insufficient collateral being posted as part of its stock lending programme.

The Committee will review its policy on stock lending from time to time.

Consultation and Publication

The Council has reviewed the Statement of Investment Principles in association with the Fund's Investment Adviser and has also consulted with the employers of the fund, employee representatives and all fund managers through written correspondence.

A copy of this document together with the Myner's Statement of Compliance has been published on the Council's website www.havering.go.uk (select Services, select Council and Democracy, select Pension fund).

The Statement of Investment Principles will be reviewed at least annually and a revised version issued as soon as any significant change occurs. Any comments and suggestions will be considered. Please contact the Pension Fund Accountant with your views at info@havering.gov.uk .

MYNERS Principles for Investment Decision Making

The Pensions Committee will regularly review the Scheme's compliance with this Statement of Investment Principles.

The Action the Council has taken to meet the recommendations made in the Myner's report has been updated to March r 2012 and is available as an appendix to this statement.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
1. Effective decision-making **Administrating authorities should ensure that :**		**SUMMARY: FULLY COMPLIANT**
(a) Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and	1) Administering authorities should have a designated group of elected members appointed to a committee to whom responsibility for pension fund activities have been assigned.	A designated group of elected members have been appointed to a Pensions Committee who are responsible for pension fund functions, as specified in the Council's constitution (Part 2).
(b) those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest	2) Roles of the officers with responsibility for ensuring the proper running of the administration authority's and the committee's business should be set out clearly. The rules drawn up should provide a framework for the committee's code of business and include a process for the declaration of conflicts of interest.	Roles of the officers with responsibility for the running of the administrating authority's and the committee's business is specified in the Council's constitution (Part 3). Declarations of interests are considered at the start of each committee meeting.
	3) The committee should be governed by specific terms of reference, standing orders and operational procedures that define those responsible for taking investment decisions, including officers and/or external investment managers.	The Pensions Committee is governed by specific terms of reference and is specified in the Council's constitution (Part 3), officer functions are also specified (Part 3).
	4) The process of delegation should be described in the constitution and record delegated powers relating to the committee. This should be shown in a public document, such as the statement of investment principles.	The delegation process for the running of the pension scheme is specified in the Council's constitution (Part 3). The Council's constitution is available via the Council's website at www.havering.gov.uk, follow links council and democracy, constitution. The Statement of Investment Principles (SIP) also includes the delegated functions to the Pensions Committee.
	5) In describing the delegation process, roles of members, officers, external advisors and managers should be differentiated and specified.	Roles of members, officers, external advisors and managers are specified in the SIP.
	6) Where possible, appointments to the committee should be based on consideration of relevant skills, experience and continuity.	Where possible, appointments made to the committee are based on consideration of relevant skills, experience and continuity.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	7) The committee should ensure that it has appropriate skills, and is run in a way designed to facilitate effective decision making. It should conduct skills and knowledge audits of its membership at regular intervals. The adoptation of a training plan and an annual update of training and development needs would represent good practice to demonstrate that the committee is actively managing the development of its members. A statement should appear in the annual report describing actions taken and progress made.	Structured training of elected members ensures that members are proficient in investment issues. The Council incorporates training within its forward looking business plan for the fund. Forward looking business plan is presented at the first Pensions Committee meeting of the financial year and reported in the Pension Fund Annual Report. Members agreed to completing the CIPFA's Knowledge and Skills self assessment of training needs. The training plan incorporates the outcomes of the self assessments.
	8) The committee review its structure and composition regularly and provide each member with a handbook containing committee's terms of reference, standing orders and operational procedures. It is good practice to establish an investment or other subcommittee to provide focus on a range of issues.	Council recommends that the membership of the Pensions Committee remains static for the life of their term in office to facilitate knowledge continuity and helps to maintains expertise within the committee. Elected members are provided with a copy of their roles and responsibilities. The committee has not established any subcommittees as the Pensions Committee focuses only on the activities of the pension fund.
	9) The committee may wish to establish subcommittees or panels to take responsibility for progressing significant areas of activity between meetings.	The Council does have a pension panel that exercises discretions within the LGPS and deals with the Internal Dispute Resolution Procedure regulations.
	10) The committee should obtain proper advice from suitably qualified persons, including officers. The CFO should assess the need for proper advice and recommend to the committee when such advice is necessary from an external advisor. The committee should ensure that it has sufficient internal and external resources to carry out its responsibilities effectively.	The Pensions Committee has appointed two advisors – Investment Advisor and Actuarial Advisor. The Pension Fund Accountant provides in house support to members. The Pension committee is also supported by the Director of Fiance and commerce and the Council's pension administration and payroll sections. Internal and external resources are considered as part of the business plan.
	11) Allowances paid to elected members should be set out in a published allowances scheme and reviewed regularly.	Members of the Pensions Committee expenses are reimbursed in line with the Council’s constitution (Part 6 -‘Members Allowance Scheme’)
	12) Employees appointed as member representatives should be allowed adequate time off from normal duties to attend meetings.	Havering Council's conditions of service permits special leave up to a number of specified days for employees who act as a member of a publicly elected body.

Principle	**Best Practice Guidance (CIPFA)**	**Havering Position/Compliance**
Page 79	13) Papers and related documentation should be clear and comprehensive, and circulated to members of the committee sufficiently in advance of the meeting.	Committee policy established and ensures that target dates for report clearance and agenda dispatch targets are met. Members receives agendas five working days prior to meeting date.
	14) The **CFO** should be given the responsibility for the provision of a training plan and ensure that members are fully aware of their statutory & fiduciary duties.	The Training Plan is incorporated within the Business Plan and includes a log of training undertaken and attendance. Indicative future training plans are also included in the business plan.
	15) The **CFO** should ensure that a medium term business plan is created and contains: financial estimates for the investment and administration of the fund, appropriate provision for training, major milestones and issues to be considered, key targets and method of measurement. The business plan should be submitted to the committee for consideration.	The Business Plan is considered by the Pensions Committee and contains: financial estimates for the investment and administration of the fund, appropriate provision for training, major milestones and issues to be considered, key targets and method of measurement. The business plan also incorporates the training plan.
	16) Business plan to review the level of internal and external resources the committee needs to carry out its functions.	Medium term Business Plan is considered by the Pensions Committee. The business plan includes the outcome of an internal review of resources, when appropriate.
	17) Administrating Authorities are required to prepare, publish and maintain statements of compliance against a set of good practice principles for scheme governance and stewardship (Reg 31 2008 regulations).	The Pension Fund prepares, publishes and maintains a statement of compliance against a set ofgood practice principles. The statement shows the extent to which the administrating authority complies with the principles and is reviewed annually.
	18) Administrating authorities are required to publish a Governance Compliance Statement in accordance with CLG guidance.	The Governance Compliance Statement is available on the Council's website: www.havering.gov.uk (under Council and democracy, council budgets ansd spending, then Pension Fund) and is included in the Pension Fund Annual Report.
	19) The fund's Administration Strategy documents should refer to all aspects of the committee's activities relevant to the relationship between the committee and the employing authorities.	In line with regulations, the fund currently does not have an administration strategy, consideration of adopting this strategy is reviewed regularly.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
2. Clear objectives		**SUMMARY: FULLY COMPLIANT**
	The committee should:	As part of the Valuation process consideration is given, with full consultation of the fund's actuary, to :
(a) An overall investment objective (s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and these should be clearly communicated to advisors and investment managers.	1) demonstrate that in setting an overall objective of the fund it has considered: the fund's liabilities in the context of expected net contribution inflows; the adequacy of the fund's assets to meet its liabilities; the maturity profile of the fund's liabilities and its cash flow situation.	the fund's liabilities in the context of the expected net contribution inflows; adequacy of the assets to meet its liabilities; maturity profile and its cash flows;
	2) consider the nature of membership profiles and financial position of the employers in the fund and decide, on the advice of actuaries, whether or not to establish sub funds.	membership profiles; financial position of the employers and whether or not to establish a sub fund;
	3) seek to include the achievement of value for money and efficiency in its objectives and all aspects of its operation	value for money;
	4) with the **CFO** need to give consideration to the general and strategic impact of the funding levels and employer contribution rates on Council tax levels over time. The responsibility of the actuary to keep employer contribution rates as constant as possible over time is the primary means of achieving this.	and the general and strategic impact of the funding levels and employer contribution rates on Council tax levels over time. The Fund's investment policies and objectives are laid out in the Funding Strategy Statement (FSS).
	5) consider its own appetite for risk and that of the employers in the fund when considering advice on the mix of asset classes and on active and passive management. Consider all assets classes currently available to members.	The Pensions Committee considers, in consultation with the fund's investment advisor, its own appetite for risk when setting the investment strategy and considers the mix of asset classes and weighs up the risk v return in considering whether the assets are managed on a passive or active basis. The Investment Strategy currently includes a mix of different asset classes which are managed actively and passively.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	6) take proper advice and should appoint advisors in open competition and set them clear strategic investment performance objectives. The committee should state how the advisors' overall performance will be measured and the relevant short, medium and longer term performance measurement framework. All external procurement should be conducted within the EU procurement regulations and the administrating authority's own procurement rules.	The Pensions Committee appoints external advisors in line with EU procurement rules and the administrating authorities own procurement rules. The committee states how performance is to be measured for the advisors and a service review is undertaken and reported to the committee annually. The contract for the external advisor is tendered on a five year cycle enabling performance to be measured in a competitive environment.
	7) also demonstrate that it has sought proper advice, including from specialist independent advisors, as to how this might be expressed in terms of the expected or required annual return on the fund and how it should be measured against stated benchmarks.	After full consultation with the Council's Actuary and Investment Advisers a clear financial and therefore fully measurable investment objective for the fund has been set.
	8) consider when it would be desirable to receive advice based on an asset/liability study and make appropriate arrangements.	The Pensions Committee commission the fund's investment advisor and actuary to undertake an asset/liability study as appropriate, when compiling the investment strategy
	9) evaluate the split between equities and bonds before considering any other asset class. It should state the range of investments it is prepared to include and give reasons why some asset classes may have been excluded. Strategic asset allocations decision should receive a level of attention (and, where relevant, advisory or management fees) that fully reflects the contribution they can make towards achieving the fund's investment objectives.	All asset classes were considered as part of the investment strategy review process and the range of investments are included in the Fund's SIP.
	10) have a full understanding of the transaction-related costs incurred, including commissions, and have a strategy for ensuring that these costs are properly controlled.	Transaction costs are disclosed in the statement of accounts.
	11) Understanding transaction-related costs should be a clear consideration in letting and monitoring a contract and where appropriate, independent and expert advice should be taken, particularly in relation to transition management.	Understanding transaction costs are considered and where appropriate expert advice would be sought.Transaction costs are considered in the decision making process when any changes to the investment strategy are under discussion.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	12) The use of peer group benchmarks should be for comparison purposes only and not to define the overall fund objective.	The committee uses the services of WM Performance Measurers for independent monitoring of performance against benchmarks. Peer group benchmark performance is used for comparison purposes only.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
3. Risk and liabilities		**SUMMARY: MAJORITY COMPLIANT**
a) In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.	The committee should:	
b) These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	1) set an overall investment strategy for the fund that: represents its best judgement of what is necessary to meet the fund's liabilities given its understanding of the contributions likely to be received from employer (s) and employees; takes account of the committee's attitude to risk, and specifically its willingness to accept underperformance due to market conditions.	A full investment strategy review was carried out following the actuarial valuation results in 2007 and reassessed following the 2010 Valuation results. The fund has formulated its own asset allocation based on identified liabilities particular to the fund. The Fund's investment strategy was adopted having considered the members attitude to risks and are covered in the SIP and FSS.
	2) ensure that its investment strategy is suitable for its objectives and takes account of the ability to pay of the employers in the fund.	
	3) consider the extent to which the cash flow from the fund's assets should attempt to match the liabilities and the relevant timing. It should also consider the volatility of returns it is prepared to accept.	
	4) be aware of its willingness to accept underperformance due to market conditions. If performance benchmarks are set against relevant indices, variations in market conditions will be built in, and acceptable tolerances above and below market returns will be stated explicitly. Benchmarks are likely to be measured over periods of up to seven years.	The Fund in aggregate has a liability related benchmark (strategic benchmark). However for individual mandates, the fund managers have a specific benchmark (tactical benchmark) and a performance target that may be based on broad indices or composites. The targets are shown in the Fund's SIP.
	5) believe that regardless of market conditions, on certain asset classes, a certain rate of return is acceptable and feasible.	
	6) state whether a scheme specific benchmark has been considered and established and what level of risk, both active and market risk, is acceptable to it.	Specific benchmarks are considered as part of any investment strategy review and monitored on an on-going basis.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
Page 84	7) receive a risk assessment in relation to the valuation of its liabilities and assets as part of the triennial valuations. Where there is reasonable doubt during performance monitoring of the fund about valuation of assets and liabilities the CFO should ensure that a risk assessment is reported to the committee, with any appropriate recommendations for action to clarify and/or mitigate the risks.	The fund receives a risk assessment as part of the Valuation process with full consultation of the fund's Actuary. Performance is monitored and reported to the committee on a quarterly basis and includes recommendations for action where appropriate. Liabilities are only considered as part of the triennial valuations, however cash flow is monitored monthly and reported to committee quarterly.
	8) at the time of the triennial valuations, analyse factors affecting long-term performance and receive advice on how these impact on the scheme and its liabilities. The committee should also ask this question of its actuaries and other advisors during discussions on performance.	
	9) use reports from internal and external auditors to satisfy itself about the standards of internal control applied to the scheme to its administration and investment operations. Ensuring effective internal control is an important responsibility of the **CFO.**	The external auditors opinion is included in the Pension Fund Annual Report. Internal control audits for pensions are undertaken annually by internal auditors and are reported to Audit Committee. Any identified issues would be reported to the Pensions Committee. Audited Internal Control reports are submitted by the Investment Managers and checked by officers for matters of concerns.
	10) The fund's Statement of Investment Principles should include a description of the risk assessment framework used for potential and existing investments.	The Pension Fund's Statement of Investment Principles includes a description of the risk assessment framework.
	11) Objectives for the overall fund should not be expressed in terms that have no relationship to the fund's liabilities, such as performance relative to other pension funds, or to a market index.	Objectives for the overall fund are set having regard to: the advisability of investing fund money in a wide range of investments; the suitability of particular investments and types of investments and the results of asset/ liability modelling.
	12) The Annual Report of the pension fund should include an overall risk assessment in relation to each of the fund's activities and factors expected to have an impact on the financial and reputational health of the fund. This could be done by summarising the contents of a regularly updated risk register. An analysis of the risks should be reported periodically to the committee, together with necessary actions to mitigate risk and assessment of any residual risk.	The Pension Fund currently does not have an overall risk assessment in the form of a risk register, although ongoing risks are considered as part of the monitoring process. **ACTION**: Monitoring risk in the form of a risk register is being developed.

Principle	**Best Practice Guidance (CIPFA)**	**Havering Position/Compliance**
4. Performance assessment	**Investments**	**SUMMARY: FULLY COMPLIANT**
a) Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors	The committee should:	
b) Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision- making body and report on this to scheme members	1) explicitly consider, for each asset class invested, whether active or passive management would be more appropriate; where it believes active management has the potential to achieve higher returns, set both targets and risk controls that reflect this, giving managers the freedom to pursue genuinely active strategies; if setting limits on divergence from an index, ensure that they reflect the approximations involved in index construction and selection.	During the investment strategy review the Pension Fund considered and adopted its own asset allocation in full consultation with the fund's investment advisors, it considered and initially adopted full active management with appropriate targets and risk controls set. In light of the market events that followed, the Pensions Committee, after assessing the risks, agreed to reduce some of the active management and switch to passive management in relation to UK and oversees equities.
	2) explicitly consider, in consultation with its investment manager (s), whether the index benchmarks are appropriate, and in particular, whether the construction of the index creates incentives to follow sub-optimal investment strategies	Benchmarks are set in agreement with the fund's investment manager (s)
	3) Where active management is selected, divergence from a benchmark should not be so constrained as to imply index tracking (i.e. passive management) or so wide as to imply unconstrained risk.	
	4) Performance targets in relation to benchmark should be related to clear time periods and risk limits and monitoring arrangements should include reports on tracking errors.	Performance monitoring reports are presented to the committee quarterly and covers the latest quarter, rolling one year and three year performance. Where appropriate fund managers will report tracking errors. Each Fund Manager presents their performance reports to the committee on alternate quarters, on each other alternate quarters they meet with officers. This is with the exception of the passive equity manager and the absolute return manager who reports to officers and the committee once a year.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
Page 86	5) Although returns will be measured on a quarterly basis a longer time frame (three to seven years) should be used to assess the effectiveness of the fund management arrangements and review the continuing compatibility of the asset/liability profile.	The asset /liability profile is considered at each triennial valuation.
	6) Investment activity in relation to benchmark should be monitored regularly to check divergence and any impact on overall asset allocation strategy.	In addition to officer reports, the investment adviser monitors and reports quarterly to the Pension Committee on performance, personnel, process and organisational issues of fund managers. The fundamental risk of the investment strategy not delivering the required – net of fee- return is measured quarterly in terms of the overall financial objective.
	7) Returns should be obtained from specialist performance agencies independent of the fund managers.	The Pension Fund uses the services of WM performance measurers who independently report against the overall fund and individual manager returns on a quarterly basis. WM returns are monitored against fund manager returns and discrepancies are investigated. WM also produce an annual performance report.
	8) Investment manager returns should be measured against their agreed benchmark and variations should be attributed to asset allocation, stock selection, sector selection and currency risk, all of which should be provided by an independent performance measurement agency	Each quarter, WM measure fund manager returns against their agreed benchmarks and variations are attributed to asset allocation and stock selection. Relative risk is also measured and the degree of the manager deviating from the benchmark is included in the WM report.
	9) In addition to the overall fund returns the return achieved in each asset class should be measured so that the impact of different investment choices can be assessed (e.g. equities by country, fixed interest by country and type etc).	The Pension Fund does not measure fund returns on an asset class basis because the focus is on how individual manager performance contributes to the overall fund performance. However the weightings in each asset class are monitored and reported.
	10) The use of peer group benchmarks (such has CIPFA/WM) may not be appropriate for directing a mandate of a manager insofar as they infer a common asset liability structure or investment requirement. Such benchmarks can be used for comparative information.	WM performance returns against peer group benchmarks are used for comparison purposes only.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	11) The mandate represents the instruction to the manager as to how the investment portfolio is to be managed, covering the objective, asset allocation, benchmark, flexibility, risk parameters, performance targets and measurement timescales.	The mandate agreed with the investment manager includes how it is to be managed and covers the objective, asset allocation, benchmark, flexibility, risk parameters, performance targets and measurement timescales.
	Advisors	
	12) The committee should devise a performance framework against which to measure the cost, quality and consistency of advice received from its actuaries. It is advisable to market test the actuarial service periodically.	Annual service assessments are undertaken for the services provided the Fund's actuary and advisors. They are measured against a set of criteria adopted by the Pension Committee.
	13) It is necessary to distinguish between qualitative assessments (which are subjective) and quantitative reviews which require the compilation of series of data and are therefore more long term by nature.	
	14) Consultants should be assessed on a number of issues including the appropriateness of asset allocation recommendations, the quality of advice in choosing benchmarks and any related performance targets and risk profiles. The quality and appropriateness of the investment managers that are recommended and the extent to which advisors are proactive and consistent in recommending subsequent changes.	
	15) When assessing managers and advisors it is necessary to consider the extent to which decisions have been delegated and advice heeded by officers and elected members	

Principle	**Best Practice Guidance (CIPFA)**	**Havering Position/Compliance**
	Decision-making bodies 16) The process of self assessment involves both officers and members of the committee reviewing a range of items, including manager selection, asset allocation decisions, benchmarking decisions, employment of consultants and best value outcomes;	Pensions Committee performance is reviewed as part of the Annual Report. Performance can be measured by the success or otherwise of the strategy put in place and the individual performance of investment managers appointed by the committee, and full compliance with governance requirements including attendance at all training sessions.
	17) the objective of the reviews would be to consider whether outcomes were as anticipated, were appropriate, or could have been improved.	
	18) The committee should set out its expectations of its own performance in its business plan. This could include progress on certain matters, reviews of governance and performance and attendance targets. It should include standards relating to administration of the committee's business such as:	The Business Plan sets out the expectations of the committee.
	19) attainment of standards set down in CIPFA's soon to be published knowledge and skills framework; achievement of required training outcomes; achievement of administrative targets such as dates for issuing agendas and minutes.	Achievement of training outcomes are self assessed by the Pensions Committee. Targets such as dates for issuing agendas and minutes are strictly adhered to. Achievement of administrative targets are reported in the Pension Fund Annual report.
	20) This assessment should be included in the fund's Annual Report.	The assessment of the committee expectations and training are included in the Annual Report

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
5. Responsible ownership **Administrating authorities should:**		**SUMMARY: FULLY COMPLIANT**
a) adopt, or ensure their investment managers adopt, the Institutional Shareholders' committee Statement of Principles on the responsibilities of shareholders and agents	1) Policies regarding responsible ownership must be disclosed in the statement of investment principles which must be contained the annual report.	Policies on Social Environmental and ethical considerations are disclosed in the SIP, a copy of which is also included in the Pension Fund Annual Report.
b) include a statement of their policy on responsible ownership in the statement of investment principles	2) Responsible ownership should incorporate the committee's approach to long term responsible investing including its approach to consideration of environmental, social and governance issues.	The Pension Committee has considered socially responsible investments and the view has been taken that non-financial factors should not drive the investment process to the detriment of the financial return of the fund.
c) report periodically to scheme members on the discharge of such responsibilities.	3) The committee should discuss the potential for consideration of environmental, social and governance issues to add value, in accordance with its policies on responsible investing, when selecting investment managers and in discussing their subsequent performances.	Over the long term, the Pensions Committee requires the investment mangers to consider, as part of the investment decisions, socially responsible investment issues and the potential impact on investment performance.
	4) Authorities may wish to consider seeking alliances with either other pension funds in general, or a group of local authority pension funds, to benefit from collective size where there is a common interest to influence companies to take action on environmental, social and governance issues e.g. LAPFF.	
	5) It is important to ensure that through the terms of an explicit strategy that an authority's policies are not overridden, negated or diluted by the general policy of an investment manager.	The SIP is distributed to fund managers so that they are aware of the overall strategy. Fund managers are included in the consultation process if there are major changes.
	6) Where the exercise of voting action is separated from the investment manager, authorities should ensure that the appropriate investment decision is taken into account by reference to those appointed to manage the investments. Authorities may use the services of external voting agencies and advisors to assist compliance in engagement. Measuring effectiveness is difficult but can only be achieved by open monitoring of action taken	Fund managers have been given delegated authority to vote in accordance with their proxy voting policies. Fund Managers report voting activity quarterly and made available for the Pensions Committee to review.
	7) The committee should ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company that is acceptable within the committee's policy.	Consideration of compliance will need to be given for future appointments. For existing investment managers, where applicable they are compliant or work is well underway to becoming compliant.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	8) The committee should ensure that investment consultants adopt the institutional shareholder committee (ISC) statement of practice relating to consultants.	The ISC is a **voluntary** code of practice and applies to institutional investors on a comply-or-explain basis. Currently all of the funds investment consultants have adopted the voluntary code.
	9) The ISC's Statement of Principles on the responsibilities of shareholders and agents sets out best practice in relation to their responsibilities in respect of investee companies, in that they will: set out their policy on how they will discharge their responsibilities; monitor the performance of, and establish, where necessary, a regular dialogue with investee companies; intervene where necessary; evaluate the impact of their engagement and report back to clients and beneficial owners.	
	10) The United Nations Environment Programme Finance Initiative (UNEP FI) has published Principles for Responsible Investment (UNPRI) and has encouraged asset owners and asset managers to sign up and commit to the principles	

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
6. Transparency and reporting **Administrating authorities should:** **a) act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives** **b) provide regular communication to scheme members in the form they consider most appropriate.**	The committee should:	**SUMMARY: FULLY COMPLIANT**
	1) ensure that its Governance Compliance Statement is maintained regularly. It should actively challenge any non-compliance and be very clear about its reasons for this and be comfortable with the explanations given.	The Governance Compliance Statement is considered and reviewed by the Pensions Committee on an annual basis. Any non-compliance is reported and necessary actions included.
	2) have a comprehensive view of who its stakeholders are and the nature of the interests they have in the scheme and the fund. There should be a clearly stated policy on the extent to which stakeholders will take a direct part in the committee's functions and those matters on which they will	The Governance Compliance Statement includes a statement on the extent to which stakeholders will take a direct part in the Pensions Committee's functions. Stakeholders are consulted and notified on major strategic and legalisation matters.
	3) build an integrated approach to its own governance and to communicating this and all other aspects of its work to its stakeholders.	The work of the Pensions Committee is publicly available on the Councils website at www.havering.gov.uk, follow links for council & democracy, committees, then pension committee. There is also a dedicated page on the Council's website for the pension fund under the page for council and democracy. How the work is communicated to its stakeholders is included in the fund's Communication Strategy.
	4) seek examples of good practice from the published reports and communication policies of other pension funds. It should also share examples of its own good practice. The full range of available media should be considered and used as appropriate.	Havering has undertaken partnership working with the London Pension Fund Authority who have developed a website to enable pension sharing best practices across the London boroughs at www.yourpension.org.uk. Havering Pension Fund is also members of the CIPFA Pensions Network and the London Pension Fund Forum which are good sources of sharing best practices.
	5) compare regularly its annual report to the regulations setting out the required content and, if the report does not fully comply with the requirements, should ensure that an action plan is produced to achieve compliance as soon as possible.	The required content of the Annual Report complies with that stated in the LGPS (Administration) Regulations 2008.

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
Page 92	6) The Funding Strategy (FSS) , the Statement of Investment Principles (SIP) and the Governance Compliance Statement are core source documents produced by the fund to explain their approach to investments and risks.	The FSS, the SIP and the Governance Compliance Statement are available on the Council's website at www.havering.gov.uk and are included on a dedicated page for the Pension Fund under the link for council and democracy. This page also includes the pension fund's Communication Strategy. Where applicable reference to all these documents is made in other publications.
	With regard to the FSS and SIP, they should: 7) contain delegation process and the roles of officers, members, external advisors and managers should be differentiated. The process by which the overall fund allocation process has been determined and include reference to assumptions as to future investment returns; mandates given to managers should describe fees structures, scale of charges, whether ad valorum or fixed, performance element built in, stating the implications for risk control; copies should be made available and its availability made clear in publications.	The policies includes: the delegation process and the roles of officers, members, external advisors and managers are differentiated; the process by which the fund allocation process has been determined and includes references to assumptions on future returns; mandates given to each manager are described, including fees; and implications for risk control.
	With regard to the Governance Compliance Statement it must include:	
	8) information on whether administrating authority delegates, the whole or part function; if it does delegate must state frequency of meetings, terms of reference, structure and operational procedures. It must also include whether the committee includes representatives of employing authorities and if so, whether they have voting rights.	The Governance Compliance Statement includes information on the administering authorities delegation process and functions delegated to the Pensions Committee. It also includes the frequency of meetings, terms of reference, structure and operational procedures.
	9) details of the extent to which it complies with CLG guidance. Where the statement does not comply, reasons must be given. A copy of the statement must be sent to the CLG.	The Governance Compliance Statement also includes a table which shows the extent of compliance with CLG guidance and a copy has been sent to the CLG.
	With regard to the fund's Communication Strategy it must:	
	10) set out the administering authority's policy on: the provision of information and publicity about the scheme to members, representatives of members and employing authorities; the format, frequency and method of distributing such information or publicity; the promotion of the scheme to prospective members and their employing authorities.	The Communication Statement includes: the administrating authorities policy on provision of information and publicity about the scheme, it also includes the format, frequency and method of distribution of such information.