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Havering
LONDON BOROUGH

PENSIONS COMMITTEE AGENDA

7.30 pm	Tuesday 23 September 2014	Town Hall, Main Road, Romford

Members 7: Quorum 3

COUNCILLORS:

Conservative Group (3)	Residents' Group (3)	UKIP Group (1)
John Crowder (Chairman) Melvin Wallace Roger Westwood	Linda Hawthorn John Mylod Ron Ower	David Johnson (Vice-Chair)

Trade Union Observers

(No Voting Rights) (2)

John Giles, (Unison)
Andy Hampshire, GMB

Admitted/Scheduled Bodies Representative

(Voting Rights) (1)

Heather Foster-Byron

For information about the meeting please contact:
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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 - 4)

To approve as correct the minutes of the meeting held on 24 June, 2014 and authorise the Chairman to sign them.

5 PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDING 30 JUNE 2014 (Pages 5 - 20)

To consider the attached report.

6 PENSION FUND ACCOUNTS 2013/14 (Pages 21 - 44)

To consider the attached report.

7 RESPONSE TO AUDITORS: REPORT TO THOSE CHARGED WITH GOVERNANCE - INTERNATIONAL STANDARD OF AUDITING (ISA) 260 (Pages 45 - 92)

To consider the attached report.

8 LOCAL GOVERNMENT PENSION SCHEME - LONDON BOROUGH OF HAVERING EMPLOYER DISCRETIONS: STATEMENT OF POLICY AND DISCRETION DECISIONS (Pages 93 - 118)

To note the attached report.

9 THE LOCAL GOVERNMENT PENSION SCHEME CHARGING POLICY AND ADMINISTRATIVE TEAM WORK PLAN (Pages 119 - 150)

To consider the attached report.

10 LOCAL GOVERNMENT PENSION SCHEME REGULATIONS ADMINISTERING AUTHORITY'S POLICIES 2014 (Pages 151 - 182)

To consider the attached report.

11 LOCAL GOVERNMENT PENSION SCHEME GOVERNANCE REFORM 2014 (Pages 183 - 212)

To consider the attached report.

12 PROCUREMENT OF ACTUARIAL SERVICES TO THE PENSION FUND (Pages 213 - 216)

To consider the attached report.

13 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.

14 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.

15 REVIEW OF FUND PERFORMANCE FOR THE QUARTER ENDING 30 JUNE 2014 - HYMANS ROBERTSON

16 PRESENTATION BY ROYAL LONDON

17 PRESENTATION BY UBS TRITON PROPERTY FUND

Andrew Beesley
Committee Administration Manager

**MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Committee Room 3A - Town Hall
24 June 2014 (7.30 - 9.10 pm)**

Present:

COUNCILLORS

Conservative Group	John Crowder (Chairman) and Roger Westwood
Residents' Group	Clarence Barrett (In place of John Mylod), Linda Hawthorn and Stephanie Nunn (In place of Ron Ower)
UKIP Group	David Johnson (Vice-Chair)
Trade Union Observers	John Giles (UNISON)
Admitted/Scheduled Bodies Representative	Heather Foster-Byron

Apologies were received for the absence of Councillors John Mylod and Ron Ower and Andy Hampshire (GMB).

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

1 **MINUTES OF THE MEETING**

The minutes of the meeting of the Committee held on 25 March, 2014 were agreed as a correct record and signed by the Chairman.

2 **PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDING 31 MARCH, 2014**

Officers advised the Committee that the net return on the Fund's investments for the quarter to 31 March, 2014 was 1.2%. This represented an out performance of 0.1% against the combined tactical benchmark and an under performance of -2.8% against the strategic benchmark.

The overall net return for the year to 31 March, 2014 was 7.0%. This represented an out performance of 1.5% against the annual tactical combined benchmark and an out performance of 7.0% against the annual strategic benchmark.

1. Hymans Robertson (HR)

Market Summary

- The domestic recovery continued afoot with the UK economy growing by 0.8% over the opening quarter of 2014. Continued improvements in the domestic outlook led the IMF to revise upwards its forecast for the UK economy, predicting that UK economic growth over 2014 would reach 2.9%. The IMF also uprated growth predictions, predicting the global economy would grow by 3.6% over 2014.

- Over the quarter, Sterling had appreciated against the US Dollar and Euro but depreciated against the Yen. In Sterling terms, Europe ex-UK was the best performing region for equities (3.0%), followed by North America (1.2%) and Pacific ex-Japan (1.0%) The UK, Emerging Market and Japanese markets lagged behind at -0.6%, -0.8% and -6.0% respectively.

- Conventional and index-linked gilts had moved back into positive territory over the quarter as interest rates fell, returning 2.2% and 3.6% respectively. Credit spreads were broadly unchanged over the quarter with corporate bonds returning 2.4% for the period.

Fund Performance

- Assets were valued at £504.1m as at 31 March 2014, an increase of £21.5m over the quarter. The total return on the Fund's assets over the quarter was calculated to have been 1.2%.

- Performance from the Fund's Multi-asset mandates was weak over the course of Q1 2014 as Barings DAAF and Baillie Gifford DGF underperformed their targets, whilst the Ruffer Absolute return mandate only matched its target. Performance from bond and equity mandates were however strong.

Investment Management changes

- UBS had published the recommendations arising from its governance review of the UBS Triton Property Fund. This proposed the introduction of an independent supervisory board and changes to the redemption provisions.

Asset Allocation

- As at the quarter end, the Fund's direct allocation to equity assets was slightly overweight target at 26.5%. On a look-through basis, the allocation to equity assets was 45%.

- A contribution of £11.5m had been invested into the SSgA Liquidity Fund during the quarter, pending allocation to a local infrastructure project.

2. Baillie Gifford (BG)

   We welcomed James Mowat and Chris Murphy to discuss the Fund's investments in Baillie Gifford's Pooled Global Equity Fund and Diversified Growth Fund (Multi-asset). Over the quarter ending 31 March 2014 the Global Alpha Fund had out-performed the benchmark by 1.7%, This continued the good level of performance since the mandate was awarded. They did advise that they could not guarantee this level of performance all the time, but over a rolling 5 year period expected to meet or better their target.

   BG advised that the Diversified growth Fund was now closed to all but routine contributions. This would enable Baillie Gifford to continue to manage the Fund in the same manner as they had done since it was launched. There had been positive performance over the period since exception and longer term performance for the Fund remained strong, with low volatility.

   We have **noted** the report and thanked James and Chris for their presentation.

3. Ruffer LLP (R)

   David Balance, Investment Director and Tom Saville, Investment Associate presented on behave of Ruffer LLP. Ruffer has $16.6 billion of assets under management, £5.3bn for UK pension schemes. The fund has been closed to new UK pension scheme clients since the end of 2010.

   The fund has a single investment approach: absolute return.
   - *Capital preservation:* not to lose money on a rolling 12 month basis;
   - *Consistent positive returns:* grow funds at a higher rate than would be achieved by depositing them in cash.

   As at 31 May 2014 the Fund had £64,975,147 invested with Ruffer. In the first quarter the fund had generated a return of -0.3% as investor uncertainty over secular unrest in Ukraine and Syria, as well as mixed macroeconomic outlooks for China, Europe and the USA contributed to increased volatility across equity, currency, commodity and fixed income markets.
   We noted the report and thanked David and Tom for their presentation.

3 LOCAL GOVERNMENT PENSION SCHEME EMPLOYER DISCRETIONS

As a result of the changes in the Local Government Pension Scheme Regulations (LGPS) 2013 and the Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014, Scheme employers participating in the LGPS in England and Wales would have to formulate, publish and keep under review a Statement of Policy on certain discretions which they have the power to exercise in relation to members of the Career Average Revalued Earnings (CARE) Scheme.

Having considered the report we have:

1. **Noted** the changes to the Pensions Regulations with effect from 1 April, 2014;
2. **Agreed** to delegate to the Group Director, Resources, the Director of Human Resources and Organisational Development, and the Council's Monitoring Officer, acting jointly, the responsibility to set the discretion decisions and produce the Policy Statement;
3. **Noted** that the final discretion decisions and Policy Statement will be brought back for our information;
4. **Agreed** to delegate to the Pension Panel the power to review and make the necessary discretion changes between valuations in response to regulatory change as they arise;
5. **Noted** that any major discretionary decisions made on our behalf would be reported to us for information on a regular basis; and
6. **Noted** that the discretions will be brought to us for review following the next triennial review.

Chairman

Havering
LONDON BOROUGH

PENSIONS COMMITTEE

23 September 2014

Subject Heading:	**PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED 30 JUNE 2014**
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 30 June 2014

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 30 June 2014. 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 30 June 2014 was **1.7%.** This represents a performance in line with the tactical benchmark and an under performance of **-1.3%** against the strategic benchmark.

The overall net return of the Fund's investments for the **year** to 30 June 2014 was **9.2%.** This represents an out performance of **1.1%** against the annual tactical combined benchmark and an out performance of **0.7%** against the annual strategic benchmark.

It is now possible to measure the individual managers' annual return for the new tactical combined benchmark since they became active on the 14th 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 Royal London (Investment Grade bonds Manager) and UBS (Property Manager).
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 unforeseen circumstances resulting in termination of the Barings Mandate (section 4.7 refers).
8) Agree to the Fund's Investment Advisor, Hymans, to continue researching a replacement Fund Manager.
9) Notes the analysis of the cash balances (paragraphs 2.2 and 2.3 refers).

REPORT DETAIL

1. Background

1.1 The Fund undertook a full review of the Statement of Investment Principles (SIP) during 2012/13 and following the appointments of the Multi Asset Managers in September 2013, who commenced trading in December 2013;

this almost completes the fund's restructuring. The Fund is still considering options for an investment in Local Infrastructure.

1.2 A strategic benchmark has been adopted for the overall Fund of Gilts + 1.8% (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.

1.4 Changes to the Asset Allocation targets were agreed by members at the Pensions Committee meeting on the 26 March 2013 and 24 July 2013. The long term strategy of the fund adopted at those meetings was to reduce exposure to equities and invest in multi asset strategies.

1.5 The following table reflects the asset allocation split following the commencement of trading of the new multi asset managers:

Manager and % of target fund allocation	**Mandate**	**Tactical Benchmark**	**Out performance Target**
State Street (SSgA) 8%	UK/Global Equities - passive	UK- FTSE All Share Index Global (Ex UK) – FTSE All World ex UK Index	To track the benchmark
Baillie Gifford 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 5%	Property	IPD (previously called HSBC/AREF) All Balanced Funds Median Index	To outperform the benchmark
Ruffer 15%	Multi Asset	Not measured against any market index – for illustrative purposes LIBOR (3 months) + 4%.	To outperform the benchmark
Barings – Dynamic Asset Allocation Fund 20%	Multi Asset	Sterling LIBOR (3 months) +4%	To outperform the benchmark
Baillie Gifford – Diversified Growth Fund	Multi Asset	UK Base Rate +3.5%	To outperform the benchmark

Manager and % of target fund allocation	Mandate	Tactical Benchmark	Out performance Target
15%			

1.6 UBS, SSgA, Baillie Gifford and Barings manage the assets on a pooled basis. 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.

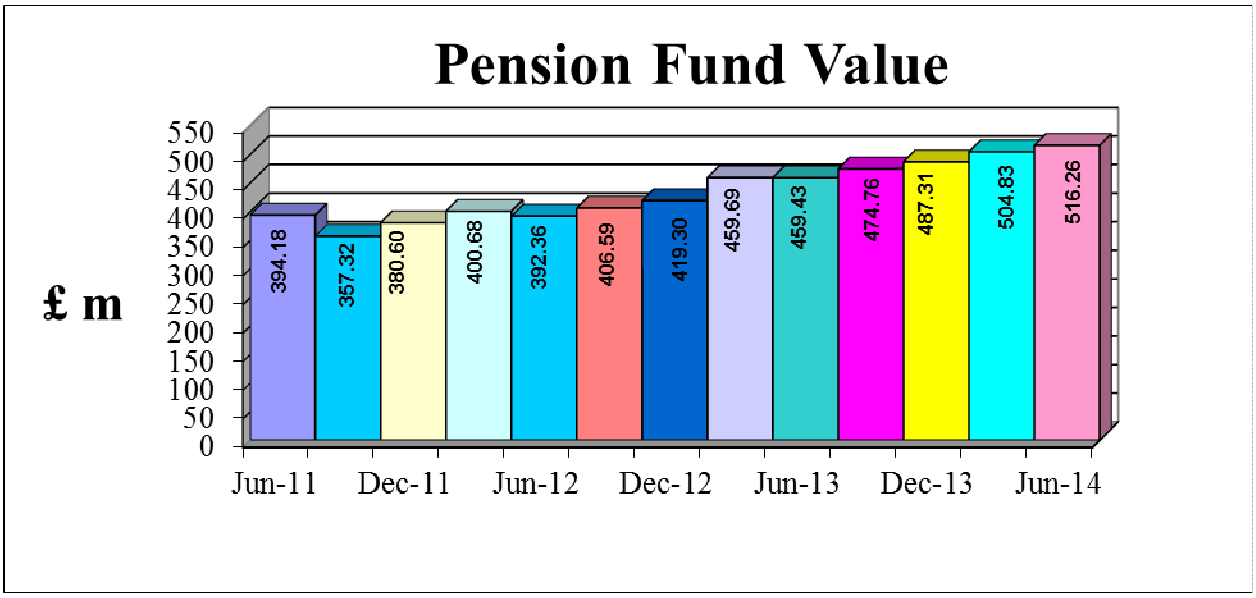
1.7 Since 2006, to ensure consistency with reports received from our Performance Measurers, Investments Advisors and Fund Managers, the 'relative returns' (under/over performance) calculations has been changed from the previously used arithmetical method to the industry standard geometric method (please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

1.8 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 Managers (Ruffer, Barings and Baillie Gifford) and the Passive Equity Manager (SSgA) who will attend two meetings per year, one with Officers and one with the 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.

1.9 Hyman's performance monitoring report is attached at **Appendix A.**

2. Fund Size

2.1 Based on information supplied by our performance measurers the total combined fund value at the close of business on 30 June 2014 was **£516.25m**. 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 £504.36m at the 31 March 2014; an **increase** of **£11.89m**. The movement in the fund value is attributable to an increase in assets of £9.70m and an increase in cash of £2.19m. The internally managed cash level stands at **£6.44m** of which an analysis follows in this report.



Source: WM Company (Performance Measurers)

2.2 An analysis of the internally managed cash balance of **£6.44** follows:

CASH ANALYSIS	**2012/13**	**2013/14 Updated**	**2014/15 30 Jun 14**
	£000's	£000's	£000's
Balance B/F	**-1194**	**-3474**	**-5661**
Benefits Paid	31272	32552	8148
Management costs	1779	2312	124
Net Transfer Values	-1284	-1131	259
Employee/Employer Contributions	-30222	-45659	-10665
Cash from/to Managers/Other Adj.	-3780	9825	1368
Internal Interest	-45	-86	-11
Movement in Year	**-2280**	**-2187**	**-777**
Balance C/F	**-3474**	**-5661**	**-6437**

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.

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 30.06.14	**12 Months to 30.06.14**	**3 Years to 30.06.14**	**5 years to 30.06.14**
Fund	1.7%	9.2%	8.5%	12.0%
Benchmark return	1.7%	8.1%	7.5%	11.6%
*Difference in return	0.0%	1.1%	0.9%	0.3%

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 + 1.8% Net of fees) is shown below:

	Quarter to 30.06.14	**12 Months to 30.06.14**	**3 Years to 30.06.14**	**5 years to 30.06.14**
Fund	1.7%	9.2%	8.5%	12.0%
Benchmark return	3.0%	8.5%	11.7%	10.4%
*Difference in return	-1.3%	0.7%	-2.9%	1.5%

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 30 JUNE 2014)

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark	Target	Performance vs Target
Royal London	2.40	2.31	**0.09**	2.50	**-0.10**
UBS	6.08	4.32	**1.78**	n/a	**n/a**
Ruffer	0.32	0.10	**0.22**	n/a	**n/a**
SSgA	2.61	2.62	**-0.01**	n/a	**n/a**
SSgA Sterling Liquidity Fund	0.12	0.08	**0.04**	n/a	**n/a**
Baillie Gifford (Global Alpha Fund)	0.30	2.60	**-2.30**	n/a	**n/a**
Barings (DAAF)	1.70	1.10	**0.60**	n/a	**n/a**
Baillie Gifford (DGF)	2.20	1.00	**1.20**	n/a	**n/a**

Source: WM Company, Fund Managers and Hymans

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

ANNUAL PERFORMANCE (LAST 12 MONTHS)

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark	Target	Performance vs Target
Royal London	8.51	6.81	**1.70**	7.56	**0.95**
UBS	17.85	15.06	**2.79**	n/a	**n/a**
Ruffer	0.82	0.50	**0.32**	n/a	**n/a**
SSgA	9.51	9.56	**-0.05**	n/a	**n/a**
SSgA Sterling Liquidity Fund	0.46	0.35	**0.11**	n/a	**n/a**
Baillie Gifford (Global Alpha Fund)	10.70	9.60	**1.10**	n/a	**n/a**
Barings	n/a	n/a	**n/a**	n/a	**n/a**
Baillie Gifford (DAAF)	n/a	n/a	**n/a**	n/a	**n/a**

Source: WM Company, Fund Managers and Hymans

- Barings and Baillie Gifford Diversified Growth Fund not included as they were not invested for entire period.
- Totals may not sum due to geometric basis of calculation and rounding.

4. Fund Manager Reports

4.1. 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 30 June 2014 follows.

b) The Royal London portfolio fund saw an increase in value of 2.3% since the previous quarter.

c) Royal London delivered a return of 2.40% during the quarter and outperformed the benchmark by 0.09% over the quarter. Since inception they outperformed the benchmark by 0.74% and the target by -0.01%.

4.2. Property (UBS)

a) Representatives from UBS are due to make a presentation at this Committee therefore a brief overview of their performance as at 30 June 2014 follows.

b) The value of the fund as at 30 June 14 rose by 6.7% since the previous quarter.

c) UBS delivered a return of 6.08% outperforming the benchmark in the quarter by 1.78%. The UBS portfolio is ahead of the benchmark over the year by 2.79%.

d) At the EGM in June the key proposals for modernisation of the fund were agreed as follows:
   - Establishing an Independent Supervisory board with oversight of the fund manager and fund governance, with the ability to facilitate dialogue between unit holders and the management team.
   - The modernisation of the existing redemption provisions
   - Introducing clauses covering a Key Person event and a process for the removal of the manager.

e) The Fund's Supervisory board is now in place and its first meeting is scheduled for October 2014.

f) UBS have now implemented the regulatory changes in July 2014 to comply with the requirements of the Alternative Investment Fund Managers Directive (AIFMD). These included changing the legal name of the entities responsible for the sub funds.

g) The two assistant portfolio managers have left the fund since UBS last met with the Committee. An internal appointment to replace one manager has already taken place and recruitment is underway for the other post.

4.3. 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. The Pensions Committee last met with Ruffer at the June 2014 meeting at which their performance as at the end of March 14 was discussed. Officers will meet with representatives from Ruffer in February 2015. An overview of their performance as at 30 June 2014 follows.

b) Since the March 14 quarter end the value of the portfolio has increased by 0.57%.

c) Ruffer has outperformed the benchmark in the quarter by -0.22% (net of fees) and outperformed the benchmark in the year by 0.32% (net of fees).

d) Ruffer has said that the second quarter of 2014 has been a frustrating one. They made a weak start in April as the increase in consumption tax (VAT) in Japan weighed on that market. For the reminder of the quarter, performance was reasonable, leaving the portfolio broadly flat.

4.4. 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 are next due to meet the committee in March 2015. Officers met with representatives from SSgA on the 12 May 2014 at which a review of their performance as at 31 March 14 was discussed. An overview of their performance as at 30 June 2014 follows.

b) The value of the portfolio has increased by 2.1% since the march 2014 quarter.

c) An Executive Decision was made to transfer £11,500,000 to MPF Sterling Liquidity Index sub-Fund in March 2014 pending consideration of options for an investment in Local Infrastructure.

d) As anticipated from an index-tracking mandate, State Street performed in line with the benchmark over the latest quarter and since inception. The sterling liquidity element of the portfolio has seen a return of 0.12% which has outperformed the benchmark by 0.04%.

e) SSgA mentioned that they are looking at ways of enhancing returns in Index Equity Portfolio management. The opportunities that are available are options for the portfolio to track different indices that may deliver better returns. Officers in conjunction with the fund's investment adviser will consider the options available and report back to the Committee, as appropriate.

4.5. Global Equities Manager (Baillie Gifford)

a) In accordance with agreed procedures officers met with representatives from Baillie Gifford on the 21 August 2014 at which a review of their performance as at 30 June 14 was discussed.

b) Since the last quarter the portfolio increased in value by 0.33%.

c) Baillie Gifford underperformed the benchmark over the quarter by -2.3% (net of fees) and outperformed the benchmark by 2.4% (net of fees) over the last year. Since inception they have outperformed the benchmark by 2.4%.

d) Baillie Gifford stated that although the fund underperformed in the second quarter, there were no major detractors while a positive performance came from a wide range of stock contributors.

e) Their fund positioning remains unchanged over the past quarter, they continued to increase exposure to information technology & innovation and the focus in Emerging Markets continues to shift from infrastructure to consumer- oriented companies.

f) Current positioning of the portfolio has holdings in Growth Stalwarts (strong Brands) 26%, Rapid Growth (fastest growth) 21%, Cyclical Growth (longer term performance) 36%, Latent Growth (stocks most out of favour with the markets) 16% and cash of 1%.

g) They added to Wellpoint during the quarter and completed sales in illumine and reduced holdings in Walt Disney.

h) Underperformance over the last quarter follows an exceptionally strong performance so Baillie Gifford was asked whether this was expected. They said that that this was normal and follows an unusually long period of over performance. They expect performance to go up and down over the long term period and whilst this quarter saw fewer transactions than the previous 3 quarters, the annualised stock turnover remains in the normal range of around 20% - entirely consistent with their long term investment horizon. They have sought to crystallise profits within the portfolio by taking profit from high value shares that they feel have peaked, capitalising on the short term price volatility in order to reinvest in attractive long term opportunities.

i) Baillie Gifford commented on the health care industry as a source of opportunity, so they were asked how they are exploiting this opportunity within the portfolio. They said that the industry is dominated by traditional big pharmaceutical companies, with unattractive cumbersome business models, but at the other end of the market, they are excited by a number of nimbler more innovative companies in the personalised healthcare industry, which they feel have the opportunity to disrupt the big players and ultimately bring down the cost of healthcare provision. They remain cognisant of whether future growth is fairly reflected in share price valuation, as such, sold shares in Illumina (producer of gene sequencing machines) to take advantage of the recent strength in share price. The US Healthcare market has changed significantly over the past few years; they recently reassessed the investment case for the holdings in Wellpoint and are convinced that Wellpoint is in a strong position to benefit from the Affordable Care Act, which is hoped to bring affordable healthcare to an additional 30 million people. As a result they decided to increase the holdings in Wellpoint.

j) Baillie Gifford was asked about emerging markets and whether they expect the recent good performance is expected to continue. They feel that there are still major opportunities within the emerging markets, however after increased stock price they sold out taking advantage of profit, but feel the timing is now right to buy again. After research of the emerging markets they have a shopping list of companies to invest in when the prices are right. They have purchased holding in an Asian insurance portfolio and feel that there are decades of expansion in countries such as Cambodia and Vietnam where there is no provision for healthcare etc. The Chinese government’s recent crackdown on corruption may lead to more healthcare/hospital procurement, so should increase opportunities in the Chinese healthcare market.

k) Overall, 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 are optimistic that the longer term investment case remains intact. They remain focused on finding exciting companies from around the world that will drive growth for the next five years. They look to capitalise on short term share price volatility in order to invest in attractive long term opportunities.

l) No governance or whistle blowing issues were reported.

4.6. Multi Asset Manager (Baillie Gifford Diversified Growth Fund)

a) In accordance with agreed procedures officers met with representatives from Baillie Gifford on the 21 August 2014 at which a review of their performance as at 30 June 14 was discussed.

b) Since the last quarter the portfolio increased in value by 2.2%.

c) Baillie Gifford outperformed their benchmark by 1.2% over the quarter (net of fees) and outperformed the benchmark by 1.2% (net of fees) since inception.

d) During the quarter, there were no large scale changes made to the asset allocation, this is consistent with a broadly unchanged economic outlook from the first 3 months of the year.

e) Over the quarter, Baillie Gifford reduced allocations to cash and high yield credit and increased the allocation to Emerging Market Bonds, Absolute Return and Structured Finance. The sole detractor from the performance was the allocation to Absolute Return strategies.

f) Baillie Gifford referred to having allocated to 'highly rated Structured Finance' investments. The implications here is lower risk and potentially lower returns, we asked if they could explain these investments. They said that Structured Finance is mainly mortgage backed finance; the investments are in mortgages backed by commercial properties which have a high value to mortgage. Given the low risk nature of these investments they view them as an attractive alternative to cash deposit rates on offer, with prospective returns of 1.5% above cash.

g) The Fund has a relative large allocation to emerging market bonds with the biggest performance this quarter attributed to it. This quarter there have also been additions to this holding through purchases in Mexican, Columbian and Peruvian local currency bonds, we asked them what their outlook is for this asset class. They said that they increased allocation to emerging markets through the direct holdings in these countries, which as well as having attractive growth prospects, they think that they will benefit from good macroeconomic management. However, in 2013 these bonds sold off alongside the Emerging Markets index, so gave Baillie Gifford the opportunity of buying at attractive yields of between 6% and 7%.The risks associated with these investment are the volatility of governments resulting in deterioration in the economic environment within the country but this is monitored closely.

h) We asked Baillie Gifford how they expected the economic climate to impact on asset allocation over the next twelve months and to what extent are policy decisions likely to impact on expected returns? They said that they are encouraged by the recent improvement in economic data in the developed world, which if sustained could bolster asset prices further. However they think that there are several potential issues still to be considered, for the UK and US continuing recovery presents central banks with some important challenges, current monetary policy has been supportive for many asset classes, but should there be stronger recovery than expected, particularly accompanied by an increase in inflation, this may require faster increase in interest rates than markets expect. This would be a negative for fixed income markets and perhaps other high yielding assets. Of the geopolitical risk, the Middle East and Ukraine is where continued unrest may have wider implications, particularly for energy prices so they are looking to take advantage of this.

i) Overall, against this backdrop Baillie Gifford will maintain a broadly diversified portfolio with a substantial allocation to more defensive assets such as Government and Investment grade bonds, Structured Finance and Cash. They believe this will deliver a worthwhile return in a wide range of different economic environments.

j) No governance or whistle blowing issues were reported

4.7. Multi Asset Manager (Barings – Dynamic Asset Allocation Fund))

a) In accordance with agreed procedures officers will only meet with representatives from Barings once in the year with the other meeting to be held with members. Barings will be meeting with members in December 2014. Officers met with Barings on the 12 May 2014, at which a review of their performance as at 31 March 14 was discussed. An overview of their performance as at 30 June 2014 follows.

b) The value of the fund as increased in value by 1.66% since the previous quarter.

c) Barings target cash+4% returns within 70% equity risk. They focus on dynamic asset allocation, diversifying in different ways at different times, using external Managers where appropriate.

d) Barings Dynamic Asset Allocation Fund returned 1.7%, outperforming the investment objective of LIBOR+4% by 0.6%. Since inception, the fund is behind the investment objective with a relative return of -0.4%.

e) The main contributors to performance have come from its exposure to overseas equities and the currency exposure hedged back to into Sterling, which because of the strength of sterling was of a benefit to the fund.

f) During the quarter they made a significant change to the portfolio by reducing the Fund's exposure to US high yield bonds in favour of emerging government bonds.

g) On the 13 August 2014 Barings issued the following advice of changes to the Chief Investment Officer and Multi Asset team at Barings.

"Ken Lambden has been appointed Chief Investment Officer, effective 16 September. Ken joins Barings from Schroders where he was most recently Global Head of Equities with oversight for over £90bn of assets managed by a team of investors spread across the globe.

After seven years in the position of CIO at Barings, Marino Valensise decided to move back into a more hands on investment role. That role will now be as Head of Multi Asset Group reporting to Ken Lambden. The appointment of Marino to the role of Head of Multi Asset Group follows Percival Stanion's decision to resign to take up an external opportunity. Andrew Cole and Shaniel Ramjee have also decided to resign from Barings. Marino's leadership of the Multi Asset Group and his chairmanship of the Strategic Policy Group will take effect immediately. Following Percival's departure, Marino will take on the responsibility of lead manager for the Baring Dynamic Asset Allocation Fund.

As CIO and a member of the Strategic Policy Group for over seven years, Marino has been influential in the evolution of Barings' Multi Asset franchise as well as the recruitment of the investment team. Over his tenure as Barings' CIO this franchise has grown significantly, from the launch of the Baring Dynamic Asset Allocation Fund in 2007 through to the development of a global range of diversified growth mandates built for institutional and retail clients in multiple regions. Marino will ensure continuity of investment approach and insight across the portfolios".

h) As a consequence of these changes, our Investment advisors Hymans Robertson informed us that there was a risk that these changes may lead to further instability within the investment team. As at 21 August, following the announcement, Barings received substantial redemption requests resulting in a net outflow of £1.91 billion. This represents just over 20% of the total Barings Fund. Based on advice from Hymans the Fund submitted a redemption notice with Barings on the 29 August 2014.

i) The redemption value is £100.6m and was settled on the 4 September 2014. Pending a search for a replacement Fund Manager this money will be invested in the State Street Global Advisors Sterling Liquidity Fund.

j) Options for a replacement Fund Manager will be brought back to the Committee for approval once Hymans has considered available possibilities.

4.8 WM Performance Measurers

a) Officers met with a WM representative on the 21 August 2014 who gave a presentation on the 2013/14 returns of the WM universe (all other LGPS funds). A summary of the major points are as follows:

b) WM universe is made up of 85 funds.

c) The benchmark for the universe was 6.4%.

d) Fund now structured differently from the average fund as shown in the table below :

Asset Allocation	**Universe**	**Havering**
Equities	63	26
Bonds	16	20
Multi Asset	3	33
Cash	3	3
Alternatives	7	13
Property	8	5

e) 53% of the funds in the universe outperformed the WM benchmark.

f) Havering Pension Fund return was 7.2% and outperformed the universe benchmark by 0.7%.

g) Havering Pension Fund achieved an overall ranking for the year of 35th.

	2013/14	**2012/13**	**3Yrs**	**5Yrs**	**10yrs**
Fund Return	7.2	14.6	8.6	13.7	7.0
Benchmark (WM Universe)	**6.4**	**13.8**	**7.5**	**12.7**	**7.8**
Relative Return	0.7	0.7	1.1	0.9	-0.7
Ranking	**35**	**32**	**22**	**25**	**81**

h) The outperformance can be attributed to the effects of asset allocation, with equities making the greatest contribution.

i) WM also produced charts that show the relationship between the absolute level of return achieved and the risk taken in obtaining that return for the main assets classes. Chart showed that the Havering Pension Fund had achieved increased levels of return whilst maintaining a moderate risk level when compared with other funds in the WM universe.

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 will be distributed to members electronically.

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

   - Points 1 and 2 are contained in the Managers' reports.

3. Voting – Where the fund does not hold a pooled equity holding, Members should select a sample of the votes cast from the voting list supplied by the managers (currently only Ruffer) 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:

  Royal London and UBS

- 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 30 Jun 2014
Royal London Quarterly report to 30 Jun 2014
UBS Quarterly report to 30 Jun 2014
Ruffer Quarterly reports 30 Jun 2014
State Street Global Assets reports to 30 Jun 2014
Barings Quarterly Reports 30 Jun 2014
Baillie Gifford Quarterly Reports 30 Jun 2014
The WM Company Performance Review Report to 30 Jun 2014
Hyman's Monitoring Report to 30 Jun 2014

Havering
LONDON BOROUGH

PENSIONS COMMITTEE

23 September 2014

Subject Heading:	**PENSION FUND ACCOUNTS 2013/14**
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:	Pension Fund Accounts to be noted by the Pensions Committee prior to agreement by the Audit Committee
Financial summary:	The report comments on the Pension Fund Accounts for the year ended 31 March 2014

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 Members with an extract of the Council's Statement of Accounts for the year to 31st March 2014 showing the unaudited accounts of the Havering Pension Fund as at that date.

RECOMMENDATIONS

That the Committee consider and note the Havering Pension Fund unaudited Accounts as at 31st March 2014 and consider if there are any issues that need to brought to the attention of the Audit Committee.

REPORT DETAIL

1. Background

1.1 The Council's Statement of Accounts for 2013/14 which are currently being audited will be presented to the Audit Committee for agreement on the 25th September 2014. As these accounts include the Pension Fund accounts any matters which, in the opinion of the Pensions Committee, would require any amendments to the accounts will need to be reported to the Audit Committee.

1.2 At the time of writing this report the Pension Fund Accounts are still subject to final clearance by our auditor's PricewaterhouseCoopers (PwC) as part of the overall audit of the Council's accounts. Once our auditors have cleared the accounts any changes will be distributed as a late item.

1.3 Key items to note from the statement are:

- The Net Assets of the Fund have increased to **£506m** for 2013/14 from £461m in 2012/13, a net increase of £45m.

- The net increase of £45m is compiled of a change in the market value of assets of £24m, investment income of £9.2m and net additions of cash of £13m and offset by management expenses of (£1.2m).

- The overall return on the Fund's investments was 7.0% (net of fees). This represented an out performance of 1.5% against the tactical benchmark and an out performance of 7.0% against the strategic benchmark.

- A copy of the audited Pension Fund Accounts and the auditors' opinion will be included in the 2013/14 Pension Fund Annual Report.

The statutory publication date for the 2013/14 Pension Fund Annual Report is 1 December 2014.

1.4 The 2013/14 Pension Fund Annual report will be presented to the Pensions Committee on 25 November to meet the statutory publication date of 1 December 2014.

1.5 Included on this agenda is the draft ISA 260 report from our external auditor PWC and our response which will be circulated to members prior to the meeting. It summarises their findings from the 2013/14 audit to date. It sets out key findings that will be considered by the auditors when considering their opinion, conclusion and certificate.

IMPLICATIONS AND RISKS

Financial Implications and risks:

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

Regulation 11 of the Accounts and Audit regulations require the publication of the Statement of Accounts after the conclusion of the audit but in any event no later than the 30th September 2014.

Legal Implications and risks:

On the basis that there are no specific issues raised by the external auditor, there are no legal implications arising directly from this report.
None arising directly

Human Resources Implications and risks:

None arising directly

Equalities and Social Inclusion Implications and risks:

None arising directly

BACKGROUND PAPERS

Working papers held within the Corporate Finance section.
Draft statement of Accounts 2013/14

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Pension Fund

Introduction

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

The following description of the scheme is a summary only. For more details on the operation of the pension fund, reference should be made to the Havering Pension Fund Annual Report 2013/14 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

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

A new LGPS came into force from the 1st April 2014 which will see retirement benefits based on a Career Average Revalued Earnings (CARE) scheme.

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

Employers in the Fund

Organisations participating in the fund include:

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

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

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

During 2013/14 three schools converted to Academies and Sodexo Catering and Breyers Group were admitted as new employers to the fund.

The other employers in the Pension Fund are as follows:

Scheduled Bodies:
Havering College of Further Education
Havering Sixth Form College

Secondary Schools
Drapers Academy (Academy from 1 September 2010)
Abbs Cross School (Academy from 1 April 2011)
Brittons School & Technology College (Academy from 1 April 2011)
Coopers' Company & Coborn School (Academy from1 April 11)
The Albany School (Academy from 1 August 2011)
Campion School (Academy from 1 August 2011)
Hall Mead Secondary School (Academy from 1 August 2011)
Sacred Heart of Mary's Girl's School (Academy from 1 August 2011)
St Edwards CE Secondary Comprehensive (Academy from 1 August 2011)
Emerson Park (Academy from 1 September 2011)
Redden Court (Academy from 1 September 2011)
Frances Bardsley School for Girls (Academy from 1 July 2012)
Bower Park (Academy from 1 February 2013)
Chafford School (Academy from 1 November 2013)

Primary School
Upminster Junior School (Academy from 1 November 2012)
Upminster Infant School (Academy from 1 November 2012)
Langtons Junior (Academy from 1 April 2013)
Pinewood Oasis (Academy from 1 October 2013)

Admitted Bodies:
Havering Citizens Advice Bureau
Mears (November 12 – took over Morrison's)
Sports and Leisure Management Ltd – Fitness and Health
Sports and Leisure Management Ltd – Charitable Trust
KGB Cleaners
Volker (joined 1 November 2011- Replaced May Gurney)
Family Mosaic (joined 1 November 2012)
Sodexo Catering (joined 1 January 2014 –pending legal agreement)
Breyers Group (joined 1 March 2014 – pending legal agreement)

Designated Bodies:
Trust Schools
Corbets Tey Special School

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

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

Membership

The membership of the Pension Fund is as follows:

	As at 31st March 2014	As at 31st March 2013
Contributors		
Havering	4,756	4,501
Scheduled bodies	1,301	1,085
Admitted bodies	149	169
Contributor Total	**6,206**	**5,755**
Deferred pensioners:		
Havering	4272	4,178
Scheduled bodies	557	483
Admitted bodies	45	41
Deferred Total	**4,874**	**4,702**
Pensioners and Dependants:		
Havering	5,347	5,204
Scheduled bodies	237	204
Admitted bodies	57	45
Pensioners & Dependants Total	**5,641**	**5,453**
TOTAL	**16,721**	**15,910**

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

During 2013/14 the final implementation of the investment strategy review was implemented with the two appointed Multi Asset Managers commencing trading in December 2013. The mandate with Standard Life was terminated and the proceeds transferred to the Barings Diversified Asset Allocation Fund (DAAF). The holdings with State Street Global Assets were reduced and the proceeds transferred to the Baillie Gifford Diversified Fund (DGF). Additional contributions were made by the London Borough of Havering and this has been temporarily invested with State Street Global Assets pending allocation to a Local infrastructure investment.

The fund managers and the market value of assets under their management as at 31 March 2014 were as follows

Investment Arrangements

Value 31 March 2013		Manager	Mandate	Value 31 March 2014	
£000	%			£000	%
85,693	18.7	Standard Life	UK Equities	-	-
98,302	21.5	Royal London	Investment Grade Bonds	99,454	19.86
22,471	4.9	UBS	Property	23,166	4.63
64,531	14.1	Ruffer	Absolute Return	64,853	12.95
109,991	24.1	State Street Global Assets	Passive UK/Global Equities	46,634	9.31
-	-	State Street Global Assets	Sterling Liquidity Fund	11,547	2.31
76,297	16.7	Baillie Gifford	Pooled Global Equities	85,594	17.09
-	-	Barings DAAF	Multi Asset	97,978	19.57
-	-	Baillie Gifford DGF	Multi Asset	71,029	14.18
48	0	Other		521	0.10
457,333	**100**	**Total Fund**		**500,776**	**100**

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

Performance

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

In 2013/14, the overall return on the Fund's investments was 7.0% (2012/13 14.4%). This represented an out performance of 1.5% against the tactical benchmark (2012/13 outperformance of 1.1%) and an out performance of 7.0% against the strategic benchmark (2012/13 outperformance 2.9%).

The longer term performance is as follows:

	3 years to 31.3.14 %	**5 years to 31.3.14 %**
Fund return	**8.4**	**13.4**
Tactical Benchmark	7.7	12.8
Performance	**0.7**	**0.5**
Fund return	**8.4**	**13.4**
Strategic benchmark	11.7	9.5
Performance	**(2.9)**	**3.5**

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

Pension Fund Account for the year ended 31st March 2014

2012/13 £000		Note	2013/14 £000
	Contributions and benefits		
30,222	Contributions	3	45,007
3,706	Transfers in from other pension funds	4	2,258
33,928			**47,265**
(31,272)	Benefits	5	(32,387)
(2,423)	Payments to and on account of leavers	6	(1,129)
(632)	Administration expenses	7	(783)
(34,327)			**(34,299)**
(399)	**Net (withdrawals) / additions from dealings with members**		**12,966**
	Returns on Investments		
(1,147)	Investment Management Expenses	8	(1,228)
9,518	Investment income	9	9,279
49,098	Profit and losses on disposal of investments and changes in the market value of investments	10	24,427
57,469	**Net returns on investments**		**32,478**
57,070	**Net Increase in the net assets available for benefits during the year**		**45,444**
403,505	Net assets of the Fund at start of year		460,575
460,575	**Net assets of the Fund at end of year**		**506,019**

Net Asset Statement as at 31 March

2013 £000		Note	2014 £000
459,162	Investment Assets	11	501,812
(1,829)	Investment Liabilities	11	(1,036)
3,709	Current Assets	12	7,854
(467)	Current Liabilities	13	(2,611)
460,575	**Net assets of the fund available to fund benefits at end of the year**		**506,019**

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

Notes to the Pension Fund

1. Basis of Preparation

The Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting 2013/14 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

2. Summary of Significant Accounting Policies

Fund Account - Income

(a) Contribution income

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

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

(b) Transfers to and from other schemes

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

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

(c) Investment Income

i) Interest income

Interest income is recognised in the fund as it accrues.

ii) Dividend income

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

iii) Distribution from pooled funds

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

Iv) Property- related income

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

v) Movement in the net market value of investments

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

Fund Account – expense items

(d) Benefits payable

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

(e) Taxation

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

(f) Administrative expenses

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

(g) Investment management expenses

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

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

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

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

Net Assets Statement

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

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

(i) Market-quoted investments
The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.
(ii) Fixed interest securities
Fixed interest securities are recorded at net market value based on their current yields.
(iii) Unquoted investments
The fair value of investments for which market quotations are not readily available is determined as follows:
- Investments in private equity funds are valued on the fund's share of the net assets in the private equity fund.
(iv) Pooled investment vehicles
Pooled investment vehicles are valued at closing bid price if both the bid and offer prices are published; or if single priced, at the closing single price.

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

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

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

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

(k) Cash and cash equivalents
Cash comprises cash in hand.

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

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

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

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

Stock Lending

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

3. Contributions

	2013/14 £000	2012/13 £000
Employers		
Normal:		
Havering	11,941	11,053
Scheduled Bodies	3,672	3,519
Admitted Bodies	681	572
Deficit funding:		
Havering	21,590	8,647
Augmentation:		
Havering	493	204
Scheduled Bodies	77	19
Admitted Bodies	20	0
Employer Total	**38,474**	**24,014**
Members		
Normal:		
Havering	5,154	4,870
Scheduled bodies	1,113	1,094
Admitted bodies	190	161
Additional contributions:		
Havering	66	66
Scheduled bodies	9	16
Admitted bodies	1	1
Members Total	**6,533**	**6,208**
	45,007	**30,222**

Additional Voluntary Contributions (AVC's)

AVC Provider	**Market Value 2013/14 £000**	**Market Value 2012/13 £000**
Prudential	717	797
Standard Life	*145*	*162*

Some employees made additional voluntary contributions (AVC's) of £62,167 (£64,785 12/13) excluded from these statements. These are deducted from the payroll and forwarded to the stakeholder pension schemes provided by the Prudential and Standard Life. The amounts forwarded during 2013/14 were £48,592 (£54,571 12/13) to the Prudential and £13,575(£10,214 12/13) to Standard Life.

4. Transfers in from other pension funds

	2013/14 £000	2012/13 £000
Individual transfers in from other schemes	2,258	3,706

5. Benefits

	2013/14 £000	2012/13 £000
Pensions		
Havering	24,975	23,675
Scheduled Bodies	664	641
Admitted Bodies	431	384
Pension Total	**26,070**	**24,700**
Commutation & Lump Sum Retirements		
Havering	5,060	4,784
Scheduled Bodies	472	339
Admitted Bodies	343	178
Commutation Total	**5,875**	**5,301**
Lump sum death benefits		
Havering	380	1,093
Scheduled Bodies	42	102
Admitted Bodies	20	76
Death Benefits Total	**442**	**1,271**
	32,387	**31,272**

6. Payments To and On Account of leavers

	2013/14 £000	2012/13 £000
Refunds to members leaving service	2	1
Individual transfers to other schemes	1,127	2,422
	1,129	**2,423**

7. Administrative Expenses

	2013/14 £000	2012/13 £000
Administration & Processing	693	566
Actuarial Fees	52	30
Audit Fees	21	21
Other Fees & Expenses	17	15
	783	**632**

8. Investment management expenses

	2013/14 £000	2012/13 £000
Administration, management and custody	1,132	1,063
Performance measurement services	13	12
Other Advisory Fees	83	72
	1,228	**1,147**

9. Investment Income

	2013/14 £000	2012/13 £000
Equity dividend	2,994	3,362
Fixed Interest securities	*3,844	**3,663
Pooled property income	1,291	1,421
Foreign Exchange Profits	950	978
Interest on Cash & Deposits	86	12
Other income	114	82
Total Income	**9,279**	**9,518**

* Income includes Index linked Interest of £464k
** Income includes Index Linked Interest of £404k

10 (a). Reconciliation of movements in investments & derivatives 2013/14

	Market Value at 31st March 2013 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in Market Value during the year £000	Cash & Other Movements £000	Market Value at 31st March 2014 £000
Equities	107,401	29,913	(122,847)	10,253	0	24,720
Fixed interest Securities	65,506	58,535	(54,397)	(1,562)	0	68,082
Index-linked Securities	53,541	160,203	(157,261)	(2,839)	0	53,644
Pooled Investment Vehicles	222,996	169,946	(5,005)	18,083	(58,500)	347,520
Derivatives	(387)	238,342	(238,342)	496	0	109
Cash instruments	1,055	10,052	(11,107)	0	0	0
Cash deposits (fund managers)	5,719	0	0	0	232	5,951
	455,831	**666,991**	**(588,959)**	**24,431**	**(58,268)**	**500,026**
Other Investment Balances	1,502			(4)	(748)	750
	457,333	**666,991**	**(588,959)**	**24,427**	**(59,016)**	**500,776**

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

	Market Value at 31st March 2012 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in Market Value during the year £000	Cash & Other Movements £000	Market Value at 31st March 2013 £000
Equities	104,209	92,538	(69,656)	11,644	(31,334)	107,401
Fixed interest Securities	70,854	75,981	(85,351)	5,491	(1,469)	65,506
Index-linked Securities	46,660	173,141	(172,307)	4,578	1,469	53,541
Pooled Investment Vehicles	175,456	7,787	(922)	28,284	12,391	222,996
Derivatives	516	217,108	(217,108)	(903)	-	(387)
Cash instruments	673	9,452	(9,070)	-	-	1,055
Cash deposits (fund managers)	3,231	-	-	-	2,488	5,719
	401,599	**576,007**	**(554,414)**	**49,094**	**(16,455)**	**455,831**
Other Investment Balances	720	-	-	4	778	1,502
	402,319	**576,007**	**(554,414)**	**49,098**	**(15,677)**	**457,333**

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

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

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £382k, including transition costs (2012/13 £318k). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

11. Analysis of investments

	2013/14 £000	2012/13 £000
Investment Assets		
Equities		
UK Quoted	6,707	89,525
Overseas quoted	18,013	17,876
	24,720	**107,401**
Fixed Interest Securities		
UK Public sector	12,535	7,512
UK Private (corporate)	55,547	56,197
Overseas Public sector	0	1,797
	68,082	**65,506**
Index-Linked Securities		
UK Public sector	41,558	40,681
UK Private (corporate)	642	660
Overseas Public sector	11,444	12,200
	53,644	**53,541**
Derivative Contracts		
Forward FX Contracts	183	130
	183	**130**
Pooled Investment Vehicles		
UK Managed Funds		
UK Quoted	322,366	199,566
UK Unquoted	16	20
Overseas	696	620
Property	1,554	1,248
UK Unit Trust		
UK Property	22,888	21,542
	347,520	**222,996**
Cash Instruments		
UK	0	1,055
	0	**1,055**
Cash Deposits		
Managers	5,951	5,719
	5,951	**5,719**
Outstanding Sales	344	816
Investment Income	1,178	1,160
Outstanding dividend and recoverable withholding tax	190	836
Investment Income due	-	2
	1,712	**2,814**
Total Investment Assets	**501,812**	**459,162**

11. Analysis of investments (Cont'd)

	2013/14 £000	2012/13 £000
Investment Liabilities		
Derivative Contracts		
Forward FX Contracts	(74)	(517)
Outstanding purchases	(960)	(1,312)
Investment Income Due	(2)	-
Total Investment Liabilities	**(1,036)**	**(1,829)**
Total Net Investments	**500,776**	**457,333**

12. Current Assets

	2013/14 £000	2012/13 £000
Pension Grants	8	9
Contributions due from Employers	184	168
Contributions due from members	71	58
Cash deposit with LB Havering	7,591	3,474
Current Assets	**7,854**	**3,709**

Analysis of Debtors	2013/14 £000	2012/13 £000
NHS bodies	8	9
Public corporation and trading funds	184	168
Other entities and individuals	71	58
Total Debtors	**263**	**235**

13. Current Liabilities

	2013/14 £000	2012/13 £000
Unpaid Benefits	(439)	(166)
Accrued Expenses	(241)	(301)
Bank Account Balance	(1,931)	-
Current Liabilities	**(2,611)**	**(467)**

Analysis of Creditors	2013/14 £000	2012/13 £000
Other entities and individuals	(680)	(467)
Total	**(680)**	**(467)**

Analysis of derivatives

Objectives and policies for holding derivatives

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

Forward foreign currency

The fund currently has exposure to forward currency contracts and the purpose of this is to reduce the fund's exposure to fluctuations in exchange rates. The fund managers who use forward currency contracts are Royal London and Ruffer. A breakdown of forward contracts held by the fund as at 31 March 2014 is given below.

Open forward currency contracts

Settlement	Currency Bought	Local Value 000	Currency sold	Local Value 000	Asset Value (Unrealised Gain) £000	Liability Value (Unrealised loss) £000
Up to one month	JPY	205,990	GBP	1,203		(3)
Up to one month	JPY	313,610	GBP	1,862		(35)
Up to one month	JPY	320,571	GBP	1,878		(11)
Up to one month	JPY	176,706	GBP	1,044		(14)
Up to one month	GBP	9,964	JPY	1,692,940	102	
Up to two months	GBP	3,411	USD	5,607	47	
Up to three months	GBP	1,390	EUR	1,666	12	
Up to three months	EUR	1,325	GBP	1,107		(11)
Up to three months	GBP	1,121	EUR	1,340	13	
Up to three months	GBP	399	USD	659	3	
Up to three months	GBP	1,782	USD	2,959	6	
Gross Open forward currency contracts at 31 March 2014					**183**	**(74)**
Net Forward currency contracts at 31 March 2014					**109**	
Prior year comparative						
Gross Open forward currency contracts at 31 March 2013					**130**	**(517)**
Net Forward currency contracts at 31 March 2013						**(387)**

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

Market Value 31 March 2013	% of total fund	Security	Market Value 31 March 2014	% of total fund
£000			£000	
0	0	Barings Dynamic Asset Allocation Fund	97,978	19.36
76,297	16.57	Baillie Gifford Global Alpha Pension Fund	85,594	16.92
0	0	Baillie Gifford Diversified Growth Fund	71,029	14.04
109,991	23.88	SSgA MPF All World Equity index	46,634	9.22

14. Financial instruments

(a) Classification of financial instruments

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

31 March 2013				31 March 2014		
Designated as fair value through fund account	**Loans and receivables**	**Financial liabilities at amortised cost**		**Designated as fair value through fund account**	**Loans and receivables**	**Financial liabilities at amortised cost**
£000	**£000**	**£000**		**£000**	**£000**	**£000**
			Financial Assets			
107,401	-	-	Equities	24,720	-	-
65,506	-	-	Fixed Interest Securities	68,082	-	-
53,541	-	-	Index linked securities	53,644	-	-
92	-	-	Derivative contracts	183	-	-
201,454	-	-	Pooled investment Vehicles	324,632	-	-
21,542	-	-	Property	22,888	-	-
-	6,774	-	Cash	-	5,951	-
-	-	-	Other investment balances	-	-	-
-	6,523	-	Debtors	-	9,566	-
449,536	**13,297**	**-**	**Financial Assets Total**	**494,149**	**15,517**	**-**
			Financial Liabilities			
(479)	-	-	Derivative contracts	(74)	-	-
-	-	-	Other investment balances	-	-	-
-	-	(1,779)	Creditors	-	-	(3,573)
(479)	-	(1,779)	**Financial Liabilities Total**	(74)	-	(3,573)
449,057	**13,297**	**(1,779)**	**Grand total**	**494,075**	**15,517**	**(3,573)**

(b) Net gains and losses on financial instruments

	2013/14	**2012/13**
	£000	**£000**
Financial assets		
Fair value through fund account	24,427	49,098
Loans & receivables	-	-
Financial liabilities measured at amortised cost	-	-
Financial liabilities		
Fair value through fund account	-	-
Loans & receivables	-	-
Financial liabilities measured at amortised cost	-	-
Total	**24,427**	**49,098**

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

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

2012/13			2013/14	
Carrying Value	Fair Value		Carrying Value	Fair Value
£000	£000		£000	£000
		Financial assets		
449,536	449,536	Fair value through fund account	494,149	494,149
13,297	13,297	Loans & receivables	15,517	15,517
462,833	**462,833**	**Total financial assets**	**509,666**	**509,666**
		Financial liabilities		
(479)	(479)	Fair value through fund account	(74)	(74)
(1,779)	(1,779)	Financial liabilities at amortised cost	(3,573)	(3,573)
(2,258)	**(2,258)**	**Total financial liabilities**	**(3,647)**	**(3,647)**

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

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

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

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

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

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

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

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

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

	Quoted Market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2014	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial Assets				
Financial assets at fair value through profit and loss	471,245	16	22,888	494,149
Loans and receivables	15,517	-	-	15,517
Total financial Assets	**486,762**	**16**	**22,888**	**509,666**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	(74)	-	-	(74)
Financial liabilities at amortised cost	(3,573)	-	-	(3,573)
Total Financial Liabilities	**(3,647)**	**-**	**-**	**(3,647)**
Net Financial Assets	**438,115**	**16**	**22,888**	**506,019**

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

Please note that the above table for the year ending 31 March 2013 does not show the correct allocation of assets under level 1 for cash and investment accruals. This does not impact the bottom line in the table.

15. Nature and extent of risks arising from financial instruments

Risk and Risk Management

The Fund's primary long-term risk is that the fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The council manages these investment risks as part of its overall pension fund risk management programme.

(a) Market risk

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

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

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

Other price risk

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

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

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

Other Price Risk – sensitivity analysis

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

Asset Type	31 March 2014 Potential market movements (+/-)	31 March 2013 Potential market movements (+/-)
UK Equities	8.91%	18.30%
Global Pooled inc UK	11.31%	13.30%
Fixed Interest Bonds	6.74%	6.10%
Index Linked bonds	10.49%	9.90%
Property	4.17%	3.80%
Cash	0.02%	0.00%

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

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

Asset Type	Value as at 31 March 2014 £000	Change %	Value on Increase £000	Value on Decrease £000
UK Equities	6,707	8.91	7,305	6,109
Global Pooled inc.UK	342,645	11.31	381,398	303,892
Fixed Interest Bonds	68,082	6.74	72,671	63,493
Index linked bonds	53,644	10.49	59,271	48,017
Property	22,888	4.17	23,842	21,934
Cash	5,951	0.02	5,952	5,950
Total	**499,917**		**550,439**	**449,395**

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

Currency Risk

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

The table below summarises the fund's currency exposure by asset type as at 31 March 2014 and 31 March 2013.

Currency Exposure by asset Type	Value as at 31 March 2014 £000	Value as at 31 March 2013 £000
Overseas Equities	18,013	17,876
Overseas Pooled	2,971	3,819
Overseas Fixed Interest bonds	-	1,797
Overseas Index Linked bonds	11,444	12,200
Overseas Cash	113	13
Total overseas assets	**32,541**	**35,705**

Currency risk – sensitivity analysis

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

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

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

Currency exposure - asset Type	Value as at 31 March 2014	Change to net assets available to pay benefits	
		+7.36%	-7.36%
	£000	£000	£000
Overseas Equities	18,013	19,339	16,687
Overseas Pooled	2,971	3,190	2,752
Overseas Fixed Interest Bonds	-	-	-
Overseas Index Linked Bonds	11,444	12,286	10,602
Overseas Cash	113	121	105
Total	**32,541**	**34,936**	**30,146**

Currency exposure - Asset Type	Value as at 31 March 2013	Change to net assets available to pay benefits	
		+6.9%	-6.9%
	£000	£000	£000
Overseas Equities	17,876	19,109	16,643
Overseas Pooled	3,819	4,083	3,555
Overseas Fixed Interest Bonds	12,200	13,042	11,358
Overseas Index Linked Bonds	1,797	1,921	1,673
Overseas Cash	13	14	12
Total	**35,705**	**38,169**	**33,241**

Interest Rate Risk

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

The fund's direct exposure to interest rate movements as at 31 March 2014 and 31 March 2013 is set out in the following table. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	As at 31 March 2014 £000	As at 31 March 2013 £000
Bond securities	121,726	119,047
Cash and cash equivalent	5,951	5,719
Cash Balances	-	1,055
Total	**127,677**	**125,821**

Interest rate risk sensitivity analysis

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

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

Asset Type	Value as at 31 March 2014	Change in year in the net assets available to pay benefits	
		+100BPS	-100BPS
	£000	£000	£000
Bond Securities	121,726	1,217	(1,217)
Cash and cash equivalent	5,951	60	(60)
Cash Balance	-	-	-
Total Change in asset value	**127,677**	**1,277**	**(1,277)**

(b) Credit Risk

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

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

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

(c) Liquidity Risk

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

16. Related Party Transactions

The Fund is required to disclose material transactions with bodies or individuals that have the potential to control or influence the Council, or to be controlled or influenced by the Council.

The Havering Pension Fund is administered by Havering Council and consequently there is a strong relationship between the council and the pension fund. In 2013/14, £0.693m was paid to the Council for the cost of administrating the Fund (£0.566m in 2012/13).

The Council is also the largest employer in the Fund and in 2013/14 contributed £33.500m (£19.700m in 2012/13) to the Pension Fund in respect of employer's contributions.

Several employees of Havering Council hold key positions in the financial management of the Fund. As at 31 March 2014 these included the Group Director of Resources, Head of Finance and Procurement, Corporate Finance Manager and the Pension Fund Accountant. All these managers are members of the Pension Fund. In 2013/14 the Pension Fund contributed £0.143m for the cost of the financial management of the Fund (£0.143k 2012/13).

Part of the pension fund internal cash holdings are invested on the money markets by the treasury management operations of Havering Council, through a service level agreement. As at 31 March 2014 cash holdings totalled £5.7m.

Governance
Responsibility for management of the Pension Fund has been delegated to the Pensions Committee and the day to day operations of the fund have been delegated to the Group Director of Resources.

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

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

During the year no Member or Council officer with direct responsibility for pension fund issues has undertaken any declarable material transactions with the Pension Fund.

The members of the Pensions Committee do not receive fees in relation to their specific responsibilities as members of the Pensions Committee.

17. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) as at 31 March 2014 totalled £186k (2012/13 £186k).This commitment relates to outstanding commitment due on an unquoted private equity fund.

18. Contingent Assets

Five admitted bodies in the Havering pension fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds total £5.1m and are drawn down in favour of the pension fund and payment will only be triggered in the event of employer default.
Two new admitted bodies, which are subject to pending legal agreements, will hold bonds or guarantees totalling £1.5m.

19. Impairment losses
There were no material impairment losses for bad and doubtful debts as at 31 March 2013/14.

20 Post Balance Sheet Events

Due to unforeseen circumstances the mandate with Barings was terminated on the 29 August 2014. The closing value of the mandate was £100,643m. This will be temporarily invested in the State Street Global Assets Sterling Liquidity Fund pending a search for a replacement Fund Manager.

21. Actuarial Present value of promised retirement benefits

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

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

The actuarial present value of promised retirement benefits at 31 March 2014 was £898m (31 March 2013 £895m). The fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

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

Assumptions used for the IAS 19 valuation are as follows:

	31 March 2014	31 March 2013
	% p.a.	% p.a.
Inflation/Pensions Increase Rate	2.6	2.8
Salary Increase Rate	3.4	4.6*
Discount Rate	4.10	4.5

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

22. Actuarial Valuation

London Borough of Havering ("the Fund")
Actuarial Statement for 2013/14
This statement has been prepared in accordance with Regulation 34(1) (d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2013/14.

Description of Funding Policy
The funding policy is set out in the London Borough of Havering Funding Strategy Statement (FSS), dated February 2014. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependents' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise costs to be borne by Council Tax payers);
- to reflect the different characteristics of employing bodies in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 60% chance that the Fund will return to full funding over 24 years

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £461 million, were sufficient to meet 61% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £292 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 30 March 2014.

Method

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

Assumptions

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

The key financial assumptions adopted for the 2013 valuation were as follows:

	31 March 2013	
Assumptions	**Nominal**	**Real**
Discount Rate for Period	4.8%	2.3%
Pay increases *	3.3%	0.8%
Price inflation/Pension increases	2.5%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with CMI 2010 model, assuming the current rate of improvements has peaked and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.1 years	24.1 years
Future Pensioners *	24.2 years	26.7 years

** Currently aged 45*

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from London borough of Havering, administrating authority to the fund.

Experience over the period since April 2013

Experience has been better than expected since the last valuation (excluding the effect of any membership movements). Real bonds yields have risen and asset returns have been better than expected meaning that funding levels are likely to have improved since the 2013 valuation

The next valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

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

	Future Service %	Past Service %	Total Pensionable Pay %
April 14 to March 15	15.6	6.4	22.0
April 15 to March 16	15.6	6.4	22.0
April 16 to March 17	15.6	6.4	22.0

The employer contributions for the other employers in the fund range from 16.7% to 28.7% of pensionable pay.

23. Critical Judgements in applying accounting Policies

Pension Fund liability

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

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

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

The items in the net asset statement at 31 March 2014 for which there is significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied	The effects on the present value of promised retirement benefits of changes in actuarial assumptions can be significant. Changes in assumptions could have the approximate following impacts on the Fund's employer liability as follows: • 0.5% decrease in the Real Discount rate could result in an increase of 9%. • 1 year increase in member life expectancy could result in an increase of 3%. • 0.5% increase in salary increase rate could result in an increase of 2% • 0.5% increase in the pension Increase Rate could result in an increase of 6%

Havering
LONDON BOROUGH

PENSIONS COMMITTEE

23 September 2014

Subject Heading:	**Response to Auditors: Report To Those Charged With Governance International Standard of Auditing (ISA) 260**
CMT Lead **Report Author and contact details:**	**Andrew Blake Herbert** Contact: Debbie Ford Designation: Corporate Finance and Manager Telephone: (01708) 432217 E-mail address: Debbie.ford@havering.gov.uk
Policy context:	Pensions Committee responsible for noting the accounts
Financial summary:	N/A

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	[]
High customer satisfaction and a stable council tax	X

SUMMARY

This report provides the Committee with a draft ISA 260 report from the external auditor PWC. The ISA 260 report covers a combined audit of the Council's Statement of the Accounts and Pension Fund Accounts for the year ended 31 March 2014. The combined ISA 260 will be considered by the Audit Committee on the 25 September 2014.

The management responses to any issues raised by the external auditors as a result of their audit of the 2013/14 accounts are set out in the Appendix to this report.

RECOMMENDATIONS

To consider and note the responses from management to the “To Those Charged With Governance (ISA260)” and the draft Letter of Representation and consider any issues raised for those items applicable to the Pension Fund Audit only.

REPORT DETAIL

The ISA 260 report covers a combined audit of the Council’s Statement of the Accounts and Pension Fund Accounts for the year ended 31 March 2014. The combined ISA 260 will also be considered by the Audit Committee on the 25 September 2014.

The ISA260 report, attached as Appendix A, incorporates the following:

- Audit Approach for the Audit
- Summary of Significant Audit and Accounting matters
- Internal Controls
- Risk of Fraud
- Fee Update

The summary of significant Audit and Accounting matters contains a list of deficiencies in internal Control that was found during the audit process with recommendations for further action. The management responses to any issues raised by the external auditors are included in the Appendix to this report.

The Committee is to consider and note the report and in particular to items that are applicable to the Pension Fund.

IMPLICATIONS AND RISKS

Financial Implications and Risks:

There are no financial implications or risks arising directly from this report. Any financial consequences arising from the outcome of the audit of accounts and recommendations set out by the external auditor will be addressed as part of the Council's response.

Legal Implications and risks:

On the basis that there are no specific issues raised by the external auditor, there are no legal implications arising directly from this report.

Human Resources Implications and risks:

None arising directly

Equalities and Social Inclusion Implications and risks:

None arising directly

BACKGROUND PAPERS

Working papers for the statement of accounts.

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www.pwc.co.uk

London Borough of Havering 2013/14

Report to those charged with governance

Report to the Audit Committee of the authority on the audit of the statement of accounts and to the Pension Committee on the audit of the pension fund accounts for the year ended 31 March 2014 *(ISA (UK&I)) 260)*

Government and Public Sector

September 2014

pwc

Contents

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

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

An audit of the Statement of Accounts is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate.

Executive summary

Background

This report tells you about the significant findings from our audit of the authority accounts and the pension fund accounts. We presented our plan to the Audit Committee in February 2014; we have reviewed the plan and concluded that it remains appropriate, apart from the following changes to our risk assessment (set out in more detail on page 3):

- A significant risk has been noted for the financial resilience of the Authority as part of our consideration of the Value for Money criteria after considering the Authority's medium term financial strategy, which identifies a significant budget gap due to cost pressures and funding reductions.

- We have added a new risk in relation to oneSource, the joint committee between the Council and the London Borough of Newham (see also page 14).

Audit Summary

We have completed the majority of our audit work and expect to be able to issue an unqualified audit opinion on the Statement of Accounts and Pension Fund Accounts on September 2014.

The key outstanding matters, where our work has commenced but is not yet finalised, are listed on page 10.

Please note that this report will be sent to the Audit Commission in accordance with the requirements of its standing guidance.

We look forward to discussing our report with you on 25 September 2014. Attending the meeting from PwC will be Ciaran McLaughlin, Chris Hughes and Amit Patel.

Acknowledgements

We would like to thank Mike Stringer, Mike Board, Nigel Foster, Mark White, Alison Umoh, Debbie Ford and their team for the considerable help and assistance provided to us during the course of our audit, particularly in chasing responses from officers. We note that the first draft of the accounts and pension fund accounts provided to us at the commencement of the audit was of a good quality.

Audit approach

Our audit approach was set in our audit plan which we presented to you in February 2014.

Since we communicated our audit plan, we have amended our audit approach to reflect the following changes:

Risk	Risk level	Response to new risk/change in risk level	Reason for change
Value for money (financial resilience)	Original – Elevated Revised – Significant	The Authority, like other Local Authorities, is facing increasing financial pressures and significant challenges to identify the levels of savings they require over the next three to five years. At present, as per the Authority's financial strategy presented to Cabinet on 3 September 2014, there exists a significant "budget gap" over the medium term. This had initially been estimated at £59.6m in the period 2015 -19, and has now been revised to £44.9m.	As part of our value for money responsibilities, we are required to consider the financial resilience of the Authority into the foreseeable future. This definition of foreseeable future has been expanded by the Audit Commission to include the medium term rather than the next 12 months. As the identified "budget gap" is material and is in the progress of being addressed, we have reassessed the risk level concluding it to be significant. Full detail on the work performed against this risk is detailed on page 6.
oneSource	New risk identified - elevated	The risks faced by the Council are that: • savings are not realised; • there is no capacity to deliver the shared service; • the governance structure is not robust, and • the monitoring function is ineffective.	The London Boroughs of Havering and Newham ("the Councils") agreed to establish a shared service to provide certain support services through a Joint Committee arrangement under delegated authority from each Council, known as "oneSource".

We have summarised below the significant risks we identified in our audit plan, the audit approach we took to address each risk and the outcome of our work.

Main Council Audit

Risk	Categorisation	Audit approach	Results of work performed
Management override of control ISA (UK&I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit. In every organisation, management may be in a position to override the routine day to day financial controls. Accordingly, for all of our audits, we consider this risk and adapt our audit procedures accordingly.	Significant	As part of our assessment of your control environment we considered those areas where management could use discretion outside of the financial controls in place to misstate the financial statements. We performed procedures to: ☐ Test the appropriateness of journal entries and other adjustments to the general ledger. ☐ Test accounting judgements that affect the General Fund for bias, such as bad debts, accruals and provisions. ☐ Consider if there had been significant transactions outside the normal course of business, and if there had, whether their rationale suggested fraudulent financial reporting or asset misappropriation. ☐ Test that expenditure had been recorded in the correct financial year. ☐ Test repairs and maintenance invoices for correct classification between revenue and capital. ☐ Consider whether any segregation of duties weaknesses gave rise to a significant risk of material misstatement. ☐ Test that the reversal of items debited or credited to the Comprehensive Income and Expenditure Statement were in accordance with statute. ☐ Review the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards; and ☐ Perform unpredictable procedures targeted on fraud risks. We obtained an understanding of and evaluated controls relevant to management override risks identified above.	We did not identify any issues to report to you as a result of our work.

Risk	Categorisation	Audit approach	Results of work performed
Risk of fraud in revenue and expenditure recognition Under ISA (UK&I) 240 there is a presumption that there are risks of fraud in revenue recognition. We extend this presumption to the recognition of expenditure in local government. The presumption that there is a significant risk is rebuttable for those elements of income and expenditure where we do not consider that to be a significant risk of material misstatement.	Significant	We performed detailed testing of revenue and expenditure transactions, focussing on the areas we considered to be of greatest risk. For income, we considered that sales, fees and charges and Business Rate income were the areas of significant risk. We did not consider grant income, Council Tax income or interest income to be significant risks. For expenditure, we considered that non payroll service expenditure is an area of significant risk. We did not consider that housing and council benefits, payroll expenditure, depreciation and impairment, pension costs recognised due to the requirements of IAS 19, or interest expenditure to be significant risks. We obtained an understanding of and evaluated the controls relevant to the significant risks described above. We conducted tests of detail to obtain a high level of assurance over the significant risks described above. We evaluated and tested the accounting policy for income and expenditure recognition to ensure that this was consistent with the requirements of the Code of Practice on Local Authority Accounting.	We identified issues in relation to accruals of income and expenditure and have described these in detail on page 11 of this report. These issues were not material to the statement of accounts. We did not identify any further matters to report to you as a result of our work.

Value for Money

Risk	Categorisation	Audit approach	Results of work performed
Savings Plans The Council is experiencing increased pressures on many of its budgets in the current economic climate and savings required to be made in the current and future years. Budget holders may feel under pressure to try and push costs in to future periods, or to miscode expenditure to make use of resources intended for different purposes. There is a risk that saving plans may not be robust and the Council is unable to demonstrate that it has achieved value of money in its use of resources.	Significant (previously reported as elevated – see page 4 for further details)	We will review your savings plan. We will consider how you manage the plan, and will investigate the reasons behind any significant variations from the plan. We will specifically consider: • your record in delivering savings; • the governance structure in place to deliver the targets (including extent of Member involvement); • the level and extent of accountability; • project management arrangements; • monitoring and reporting; and • progress on delivering the plan. We will consider the accounting implications of your savings plans and we will consider the impact of the efficiency challenge on the recognition of both income and expenditure	As at the date of drafting this report, our audit work in this area had not commenced, as our work to address this risk is planned to be undertaken in September 2014. We will provide a verbal update to the Committee.
oneSource	Elevated	We will conduct interviewers with senior stakeholders at the council and review relevant documentation to assess how the council is managing the risks identified on page 4 above.	As at the date of drafting this report, our audit work in this area had not commenced, as our work to address this risk is planned to be undertaken in September 2014. We will provide a verbal update to the Committee.

Pension Fund Audit

Risk	Categorisation	Audit approach	Results of work performed
Fraud and management override of controls	Significant	During the audit we focused on areas where management could override the control environment to materially misstate the financial statements. We: • tested the appropriateness of journal entries and other adjustments to the general ledger on a sample basis; • tested accounting judgements that affected the Pension Fund for bias, such as accruals and provisions; • considered if there had been significant transactions outside the normal course of business; • tested that expenditure had been recorded in the correct financial year; • considered whether any segregation of duties weaknesses give rise to a significant risk of material misstatement; • reviewed the appropriateness of accounting policies and estimation bases, focusing on any changes not driven by amendments to reporting standards; and • performed unpredictable procedures targeted on fraud risks.	We did not identify any issues to report to you as a result of our work.

Risk	Categorisation	Audit approach	Results of work performed
Pensions – Valuation of pooled investment vehicles may be materially misstated The pooled investments are held in a pooled fund of funds. These investments are not all publicly listed and as such there is a degree of estimation involved in the valuation. Given that these funds form a material balance within the Pension Fund Accounts, we have identified the valuation of these funds as an elevated risk.	Elevated	We performed the following procedures to test the valuation of pooled investment vehicles. • Obtained independent confirmation from the fund manager • Re-performed the calculation of year-end valuation by multiplying the confirmed number of units by the confirmed unit price and converted by PwC sourced foreign currency exchange rate where necessary. • In order to gain evidence that the confirmed price was a realisable value, obtained details of a transaction in the fund close to the year-end and compare the transacted price to the year-end price. • We obtained a copy of fund manager's report on internal controls and identified whether there were any weaknesses in the controls over the pooled vehicle valuation process. • Obtained the review the audited accounts for the fund, where available, and compared the audited unit price to the unaudited price provided by the fund manager or custodian.	We did not identify any issues to report to you as a result of our work.

Scoping – materiality

In our audit plan presented to you in February 2014 we reported our planned overall materiality which we used in planning our overall audit strategy. Our measurement of overall materiality has varied because we set it as a percentage of the gross expenditure and net assets in the draft statement of accounts.

Our revised materiality levels are as follows:

	£
Overall materiality – Main accounts	12,200,000
Overall materiality – Pension Fund	10,120,380
Clearly trivial reporting de minimis – Main accounts	500,000
Clearly trivial reporting de minimis – Pension Fund	500,000

Overall materiality has been set at 2% of actual gross expenditure for the year ended 31 March 2014.

Overall materiality for the pension fund audit has been set at 2% of net assets for the year ended 31 March 2014.

ISA (UK&I) 450 (revised) requires that we record all misstatements identified except those which are “clearly trivial” i.e. those which we do expect not to have a material effect on the financial statements even if accumulated. We agreed the de minimis threshold of £500,000 with the Audit Committee at its meeting in February 2014.

Significant audit and accounting matters

Auditing Standards require us to tell you about relevant matters relating to the audit of the Statement of Accounts sufficiently promptly to enable you to take appropriate action.

Accounts

We have completed our audit, subject to the following outstanding matters:

- Contingent liabilities/ assets;
- Whole of Government Accounts;
- Our audit work in respect of the Value for Money conclusion;
- Certification work on the Housing Benefits grant claim is subject to completion;
- Review of the final draft of the Statement of Accounts;
- Approval of the Statement of Accounts and letters of representation; and
- Completion procedures including subsequent events review.

Subject to the satisfactory resolution of these matters, the finalisation of the Statement of Accounts and their approval of them we expect to issue an unqualified audit opinion.

Accounting issues

We identified the following matters during the course of our work that we wish to draw to your attention:

- Capital expenditure; and
- Accruals of income and expenditure.

Capital expenditure

According to IAS 16, "Property, Plant and Equipment", expenditure should be capitalised if it is for the purchase of tangible fixed assets or enhances the economic benefits of the asset in excess of its previously assessed standard of performance.

In testing operating expenditure, we found several instances in which capital expenditure for Council's schools and highway maintenance service was incorrectly expensed.

This has been caused by the high degree of judgement involved in assessing the nature of the expenditure and the incorrect use of accounts codes by the schools and highway maintenance service.

Please see the details of the audit adjustments proposed in Appendix 1. We also recommend that management should revise their controls over the coding of capital expenditure to ensure the correct accounting treatment – see page 17 for details.

Accruals of income and expenditure

According to CIPFA Code of Practice Guidance Notes, activity is accounted for in the year that it takes place, not simply when cash payments are made or received.

From our testing of accruals, income, expenditure and recorded liabilities, we found that accruals of income and expenditure were either made incorrectly or not raised at all.

In aggregation, the total impact on the financial statements of these issues is immaterial.

However, the issues identified in our expenditure cut-off testing resulted in a misstatement above the reporting threshold described on page 9. Please see details in Appendix 1 on page 25.

As there are repeated misstatements from different areas of testing, we raised a control deficiency as set out in "Internal Controls" section of this report.

The additional audit effort required to complete our investigations into the areas described above has resulted in additional audit fees being incurred – see page 21 for details.

Misstatements and significant audit adjustments

We have to tell you about all uncorrected misstatements we found during the audit, other than those which are trivial. See Appendix 1.

Significant accounting principles and policies

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

Judgments and accounting estimates

The Authority is required to prepare its financial statements in accordance with the CIPFA Code. Nevertheless, there are still many areas where management need to apply judgement to the recognition and measurement of items in the financial statements. The following significant judgements and accounting estimates were used in the preparation of the financial statements:

Valuation of property, plant and equipment and investment properties

In accordance with its accounting policy the Authority re-values Council Dwellings and Investment Properties on an annual basis. All other asset classes are re-valued on a five year rolling basis. Impairment losses of £6.6 million were charged to the Comprehensive Income and Expenditure Statement during the year in relation to these assets.

The Authority has utilised the expertise of external valuers in evaluating the valuation of the Authority's property, plant and equipment and investment properties.

Our valuation experts have reviewed the assumptions and methodologies used by the external valuer.

The external valuer has used an approach of apportioning land values as a percentage of building costs in their valuation. However, PwC valuers would adopt an approach that derived the land values by using a land value per acre based on market comparables.

This matter has been reviewed and considered by Management including the Council's Internal Property team who are comfortable that the assumptions and methodology adopted by WH&E do not materially misstate the financial statements.

In addition, we selected a sample of properties in the Beacon group to re-perform the valuation calculation which was based on the average sale price of properties with similar characteristics. We questioned management of the specific adjustments made to the value of each property and the explanations provided were satisfactory.

Management carried out an impairment review during the year for assets that were not re-valued in 2013/14. The assumptions and methodology were reviewed by PwC valuers. We also further challenged management by assessing the impact of properties which were not re-valued on the financial statements. In particular, we calculated the value of the assets if they had been revalued annually using the Gerald Eve's IPD Capital Value indices and compared this recalculated value with the current net book value of the assets.

Overall, we have considered the approach adopted by the external valuer and the Authority and, in the context of the truth and fairness of the accounts as a whole, are satisfied that the valuations recorded in the accounts are not materially misstated.

Pensions liability

The most significant estimate in the Statement of Accounts is in the valuation of net pension liabilities for employees in the London Borough of Havering pension fund. Your net pension liability at 31 March 2014 was £506 million (2013 - £461 million).

The 2013 triennial valuation has been finalised and the effect has been reflected in the 2013/14 Statement of Accounts.

We reviewed the reasonableness of the assumptions underlying the pension liability, and we are comfortable that the assumptions are within an acceptable range.

We utilised the work of actuarial experts to assess the assumptions applied by the Council and found no issues.

We audited the data supplied to the actuary on which to base their calculations.

We performed reasonableness checks over pension assets by comparing expected fair value of scheme assets with the actual value. The expectation was based on the assumption that there were no significant changes affecting the allocation of assets. The difference is within what we consider to be a tolerable threshold, and hence the fair value of the assets was deemed to be reasonable.

Changes to IAS 19: Employee Benefits

From 2013/14 there have been changes to the accounting for defined benefit schemes and termination benefits. These changes have been reflected in the Authority's financial statements and the changes have been dealt with appropriately.

Management representations

The final draft of the representation letter that we ask management to sign is attached in Appendix 2.

Related parties

In forming an opinion on the financial statements, we are required to evaluate:

- whether identified related party relationships and transactions have been appropriately accounted for and disclosed; and
- whether the effects of the related party relationships and transactions cause the financial statements to be misleading.

The Council's policy is to disclose all related parties transactions with Councillors and employees. A threshold of £5,000 is used for disclosing related parties transactions with other organisations as transactions below £5,000 were considered trivial for disclosure. However, management applied an incorrect threshold of £50,000 instead of £5,000 in their initial workings. Upon PwC's challenge of the threshold, management revised the working paper and included the five related parties with transactions below £50,000 in the disclosures in the statement of accounts. PwC reviewed management's working papers and undertook other procedures to consider the completeness of the disclosures in the accounts, and no issues were noted. Further wording was also suggested to increase the transparency of the note. Management has amended the statement of accounts to include the further wording and related parties identified.

Audit independence

We are required to follow both the International Standard on Auditing (UK and Ireland) 260 (Revised) "Communication with those charged with governance", UK Ethical Standard 1 (Revised) "Integrity, objectivity and independence" and UK Ethical Standard 5 (Revised) "Non-audit services provided to audited entities" issued by the UK Auditing Practices Board.

Together these require that we tell you at least annually about all relationships between PricewaterhouseCoopers LLP in the UK and other PricewaterhouseCoopers' firms and associated entities ("PwC") and the Authority that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity.

Relationships between PwC and the Authority

We are not aware of any relationships that, in our professional judgement, may reasonably be thought to bear on our independence and objectivity and which represent matters that have occurred during the financial year on which we are to report or up to the date of this document.

Relationships and Investments

We have not identified any potential issues in respect of personal relationships with the Authority or investments in the Authority held by individuals.

Employment of PricewaterhouseCoopers staff by the Authority

We are not aware of any former PwC partners or staff being employed, or holding discussions in respect of employment, by the Authority as a director or in a senior management position covering financial, accounting or control related areas.

Business relationships

We have not identified any business relationships between PwC and the Authority.

Services provided to the Authority

The audit of the Statement of Accounts is undertaken in accordance with the UK Firm's internal policies. The audit engagement is subject to an independent partner review of all significant judgements taken, including our reporting to the Audit Committee and a review of the annual report. The audit is also subject to other internal PwC quality control procedures such as peer reviews by other offices.

Fees

The analysis of our audit and non-audit fees for the year ended 31 March 2014 is included on page 21. In relation to the non-audit services provided, none included contingent fee arrangements.

Services to Directors and Senior Management

PwC does not provide any services e.g. personal tax services, directly to directors, senior management.

Rotation

It is the Audit Commission's policy that engagement leaders at an audited body at which a full Code audit is required to be carried out should act for an initial period of five years. The Commission's view is that generally the range of regulatory safeguards it applies within its audit regime is sufficient to reduce any threats to independence that may otherwise arise at the end of this period to an acceptable level. Therefore, to safeguard audit quality, and in accordance with APB Ethical Standard 3, it will subsequently approve engagement leaders for an additional period of up to no more than two years, provided that there are no considerations that compromise, or could be perceived to compromise, the auditor's independence or objectivity. 2013/14 represents the 4th year that Julian Rickett has acted as Engagement Leader.

Gifts and hospitality

We have not identified any significant gifts or hospitality provided to, or received from, a member of Authority's Cabinet, senior management or staff.

Conclusion

We hereby confirm that in our professional judgement, as at the date of this document:

- we comply with UK regulatory and professional requirements, including the Ethical Standards issued by the Auditing Practices Board; and
- our objectivity is not compromised.

We would ask the Audit Committee to consider the matters in this document and to confirm that they agree with our conclusion on our independence and objectivity.

Annual Governance Statement

Local Authorities are required to produce an Annual Governance Statement (AGS), which is consistent with guidance issued by CIPFA / SOLACE: "Delivering Good Governance in Local Government". The AGS was included in the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA / SOLACE "Delivering Good Governance in Local Government" framework and whether it is misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Economy, efficiency and effectiveness

Our value for money code responsibility requires us to carry out sufficient and relevant work in order to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

The Audit Commission guidance includes two criteria:

- The organisation has proper arrangements in place for securing financial resilience; and
- The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We determine a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities.

In our Audit Plan presented to you in February 2014, we assessed that the Authority's financial resilience regarding savings plans was an elevated risk. We have subsequently reassessed this as a significant risk, due to the material budget gaps identified in the Authority's medium term financial strategy.

As a result of the Local Government Financial Settlement, the Authority has set out a financial strategy from 2015/16 to 2018/19. There is a notable "budget gap" in the financial forecast as reported to the Cabinet on 3 September 2014 of £44.9m

We are aware the Authority is in the process of determining actions to reduce the Authority's medium term "budget gap", with £17.5m of savings identified in the 3 September 2014 Cabinet Report for the years 2015/16 and 2016/17.

However, common to all authorities, there are still outstanding issues to resolve and areas of uncertainty remaining in closing the budget gap.

As at the date of drafting this report, our audit work in this area was in progress, as the majority of our work to address this risk will be undertaken in September 2014.

We will provide a verbal update to the Committee in respect of this work.

Targeted audit work

In our revised risk assessment we identified the following area for review:

The London Boroughs of Havering and Newham ("the Councils") agreed to establish a shared service to provide certain support services through a Joint Committee arrangement under delegated authority from each Council, known as "oneSource".

The Audit Commission publication Local review guide – shared services, 2013/14 states that "a concern for members and managers in establishing shared services is the level of control they will be able to exert over financial and service performance. The risks faced by the Councils are that:

- savings are not realised;
- there is no capacity to deliver the shared service;
- the governance structure is not robust, and
- the monitoring function is ineffective".

We have concluded that these risks give rise to an elevated risk in respect of our VfM conclusion at this stage, specifically in respect of the criteria "The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness".

As at the date of drafting this report, our audit work in this area was in progress, as the majority of our work to address this risk will be undertaken in September 2014.

We will provide a verbal update to the Committee in respect of this work

An audit of the Statement of Accounts is not designed to identify all matters that may be relevant to those charged with governance. Accordingly, the audit does not ordinarily identify all such matters. We have issued a number of reports during the audit year, detailing the findings from our work and making recommendations for improvement, where appropriate.

Internal controls

Accounting systems and systems of internal control

Management are responsible for developing and implementing systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the Statement of Accounts and our review of the annual governance statement.

Reporting requirements

We have to report to you any significant deficiencies in internal control that we found during the audit which we believe should be brought to your attention.

Other less significant deficiencies have been discussed with the Group Director of Finance and Commerce and will be raised in an "insight" memo for management. They will be followed up in 2014/15.

Summary of significant internal control deficiencies

Main Council Audit

Deficiency	Recommendation	Management's response
Payroll reconciliation The payroll reconciliation was not completed for the year end on a timely basis. We understand from the payroll team that payroll reconciliations have been produced throughout the year, but with issues needing to be resolved. PwC worked together with the payroll team to determine the right payroll report needed for the purpose of reconciling the payroll system to the General Ledger. We received the payroll reconciliation after five weeks from the start of the audit. The remains a small difference on the payroll reconciliation which should be reconciled jointly by the payroll and finance teams. This control deficiency was also noted in the 2012/13 audit.	We recommend the payroll reconciliation is performed monthly. During the 2013/14 audit, the reconciliations provided at the start of the audit were not reconciled. The reconciliations were then revised and provided with trivial reconciling items. We expect the payroll reconciliation to provided at the start of the audit next year.	A monthly reconciliation format has been agreed with the auditors and is in place for monthly payroll reconciliations to ensure the reconciliation is available at the start of the audit for 2014/15.

Accruals of income and expenditure We have identified various instances from different testing (including income and expenditure cut-off testing, recorded liabilities, and accruals testing) in which accruals were either not raised or raised incorrectly. In the expenditure cut-off testing, the issue resulted in a total misstatement which is above the reporting threshold.	We recommend that management should review the controls around the accruals of income and expenditure to ensure that income and expenditure is recorded in the correct period.	Under Shared Service arrangements, accruals are identified and raised by the Service concerned. Corporate Finance, in conjunction with Operational Finance, will consider training needs and review communication with Services to ensure clear guidance on closure of accounts is disseminated to Cost Centre Managers.
Capital expenditure In testing operating expenditure, we found several instances in which capital expenditure for Council's schools and highway maintenance service was incorrectly expensed. This has been caused by the high degree of judgement involved in assessing the nature of the expenditure and the incorrect use of accounts codes by the schools and highway maintenance service.	We recommend that management should review the controls around the capitalisation of expenditure and ensure that clear instructions are provided to schools and other business units outside finance.	Under Shared Service arrangements, Cost Centre Managers are responsible for ensuring their expenditure is correctly classified. As this capital expenditure would have been financed by revenue contributions, there was no impact on revenue outturn from these errors, but the accounting treatment was incorrect. Corporate Finance, in conjunction with Operational Finance, will consider training needs and review communication with Services to ensure clear guidance on closure of accounts is disseminated to Cost Centre Managers. Education Finance will monitor schools building maintenance costs to ensure costs are capitalised as appropriate.
Bank reconciliations We noted that there was no review of the year-end bank reconciliations. The bank reconciliations for four out of five Council main accounts were not reconciled at the start of the audit. Three bank reconciliations were revised and provided the day after while the remaining bank reconciliation was provided at the fourth week of the audit. There was only one reconciliation for the general account and the housing account instead of separate reconciliations for each bank account. We also noted that the list of reconciling items was not complete with unpresented cheques dated after 18/09/2012 being excluded for the creditors payment account. Some of the reconciling items were not valid for the general account and housing account. In particular, cash had been received before the year end, but it was incorrectly listed as cash in transit at the year end.	We recommend that monthly bank reconciliations should be performed and reviewed in line with the policy for each of the bank account. There should be clear evidence of review, for example, electronic signature and date of review. The review should make sure that the list of reconciling items is complete and valid. Bank reconciliations should be prepared based on the statement as at 31/03/14. The reviewer checklist should include checking the date of the bank statement.	The incorrect reconciliation files were initially provided to the auditors, and this was corrected when identified. The Number 1 account had a balance of £29k relating to un-presented cheques. A new form is being introduced to improve control of reconciliations on a daily basis, included un-presented cheques. Reconciliations are reviewed by the relevant senior officer and a date of review inserted into the file to show the date approved or reviewed. Housing & General Account reconciliations will be reviewed to identify whether it is practical to have separate reconciliations for these two 2 areas.

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Bank reconciliations for "Havering Pupil Referral Service" were prepared based on the account statement as at 28/03/14 instead of 31/03/14.	

Pension Fund Audit

Deficiency	Recommendation	Management's response
Pension contributions paid into Council's main bank account We found that in three instances, the contributions have been paid into the Council's main bank account and not the special-purposed bank account set up for separating contributions payments from other Council payments as per the LGPS laws and regulations.	We recommend that Pension Fund Management ensure these contribution payments, especially the contribution from admitted or scheduled bodies, are made into the separate Pension Fund bank account.	Bank Account reconciliations identify when contributions are paid into the wrong bank account. Schedules of expected contributions identify late payment, and a Charging Policy is to be taken to the Pensions Committee to allow the Pension Administration team to impose charges on scheme employers for failing to comply with administrative requirements.
Pension benefit payment We have identified two occasions where payroll processed payments for people who had already terminated their employment with the Council. This was due to delays in transferring the completed paperwork relating to the termination of these two individuals from line managers to payroll. The Council had to reclaim the payment back from these individuals two months after the termination date. The risk arising is that the Council find it difficult to reclaim the full amount back in these situations.	We recommend that management should process the paperwork relating to the terminated employee in a timely manner to ensure no payment is made to leavers after their termination date.	The Transactional services Manager is investigating the issues giving rise to the auditors recommendation and will implement any necessary change in procedures in liaison with them.
Issues with admission agreements (1) We have identified that the Pension Fund Manager did not have bond values for 6 out of 9 admitted bodies. 4 of these were obtained from the pensions team from admission agreements; 2 from Legal. There is lack of communication between the Service departments, legal team and the pensions accounting team with regards to admission agreements. As a result, there is a risk that finance cannot gather the	(1) We recommend that a formal protocol is established for admission of admitted bodies, including monitoring and the pensions accounting team being given a full schedule of admission agreements so that the accounts can be kept up to date in this respect. (2) We recommend the management to have more frequent regular revaluation of bond. Although the regulations do not stipulate how frequently this is needed,	A TUPE manual and Admission Policy is currently being consulted upon and will be presented to the Pension Committee before March 2015. CMT have been briefed on the issues with Admission Agreements to disseminate clear responsibilities to their directorate service managers. Regular meetings are held with Legal Services to monitor progress on finalising Bond and Admission Agreements. Regular briefings are provided to external scheme employers, such as Academies, to remind them of their duties regarding Admission and Bond terms for contractors to be admitted to the Pension Fund. Where

indemnity bond related information to present a complete and accurate contingent asset balance. (2)Bonds have only been valued for admitted bodies as at admission and these are assessed every three years. In the absence of any earlier assessments there is a risk is that If an employer were to be liquidated, an out-of-date bond value might cause there to be insufficient indemnity cover; any excess is paid off by increasing the employer's contribution rate for the body.	it would be reasonable to do this at least annually.	there is failure to comply it is reported to members of the Pension Panel. The TUPE manual and Admission Policy will set out the timescales for reviewing bonds, with annual bond review put in place for the latter years of a contract that is coming to the end of the contract period. Who meets the costs for the bond revaluations has been addressed in the Charging Policy, which is being presented to the Pension Committee in September 2014.
Lack of pensions specific risk register We have identified that there was no risk register in place specifically for the Fund when we performed the audit. The Myners principles state that this is best practice, and although the Committee does monitor the Fund’s risks, to implement a regularly updated risk register with agreed mitigating controls and actions is likely to enhance the Committee’s monitoring processes.	We recommend the Committee consider drawing up a pensions specific risk register.	Risks and how they are controlled are already covered in the appropriate individual statutory policies. Officers are currently compiling a register to pull together all the identified pension risks for members to consider later in the year.

Risk of fraud

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors, management and those charged with governance are summarised below:

Auditors' responsibility

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

Management's responsibility

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

Responsibility of the Audit Committee

Your responsibility as part of your governance role is:

- to evaluate management's identification of fraud risk, implementation of anti-fraud measures and creation of appropriate "tone at the top"; and
- to investigate any alleged or suspected instances of fraud brought to your attention.

Your views on fraud

In our audit plan presented to the Audit Committee in February 2014 we enquired:

- Whether you have knowledge of fraud, either actual, suspected or alleged, including those involving management?
- What fraud detection or prevention measures (e.g. whistle-blower lines) are in place in the entity?
- What role you have in relation to fraud?
- What protocols / procedures have been established between those charged with governance and management to keep you informed of instances of fraud, either actual, suspected or alleged?

In presenting this report to you we ask for your confirmation that there have been no changes to your view of fraud risk and that no additional matters have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud is included in the letter of representation.

Fees update

Fees update for 2013/14

We reported our fee proposals in our plan. We varied our fee for the reasons outlined below.

	2012/13 outturn	2013/14 outturn	2013/14 fee proposal
Audit work performed under the Code of Audit Practice - Statement of Accounts - Conclusion on the ability of the organisation to secure proper arrangements for the economy, efficiency and effectiveness in its use of resources -Whole of Government Accounts	199,859	199,859	199,859
Fee variation for audit work performed under the Code of Audit Practice – financial statements (i)	1,500	8,063	N/A
Fee variation for audit work performed under the Code of Audit Practice – value for money conclusion (ii)	N/A	TBD	N/A
Fee variance – Council Tax Support and Business Rates income (iii)	N/A	TBD	N/A
Pension fund audit (iv)	21,000	TBD	21,000
Certification of Claims and Returns (v)	41,390	TBD	22,565
Planned non audit work	25,000	0	0
TOTAL	**290,384**	**TBD**	**243,424**

(i) We have performed additional work in respect of various issues identified during the course of the audit as listed out below:

- Issues identified with the capital expenditure (see page 10), accruals of income and expenditure (see page 11), and an instance of the incorrect application of a council tax discount rate resulted in additional testing to verify the extent of errors so that we could conclude the accounts were not materially misstated.
- Bank and payroll reconciliations were not reconciled at the start of the audit causing additional audit work in respect of the reconciliations. A complete and accurate payroll reconciliation enables us to determine the sample size of the operating expenditure testing and payroll cost testing, the delay in the provision of the payroll reconciliation meant that further work was required for the relevant testing.
- Some delays in responses to audit requests in relation to testing of unrecorded liabilities caused additional resources to be required so that the audit could be completed in time.

The total addition costs for the main Council audit is £8,063, which has been included in the table above.

(ii) As this work is additional to the scale fee set by the Audit Commission, we have agreed with the Councils that additional audit fees for this work will be split on a two thirds /one third basis between Newham and Havering respectively, which reflects how surpluses generated by oneSource are shared between the Councils. We will also need to consider the extent of work undertaken with respect to the financial resilience criteria.

(iii) We presented our plan to you in March 2014 and noted that due to changes in the Audit Commission certification regime, we expected that we would need to obtain audit comfort over the Council Tax Support awarded and Business Rates income in the statement of accounts from additional audit procedures over these items, rather than by relying on certification work undertaken over the respective grant claims relevant to Council Tax benefit and business rates.

We expected that we would need to obtain audit comfort over Council Tax Benefit expenditure and Business Rates income in the statement of accounts from additional audit procedures over these items. We have undertaken additional work in this regard which included:

- Testing a sample of council tax support claims to the underlying documentation and policy as set out by the Council;
- Testing the Business Rates appeals provision contained in the financial statements for reasonableness; and
- Testing Business Rates income back to Valuation Office Agency information, supporting documentation and bank records.

The Audit Commission have indicated that a small amount of fees will be payable by all Councils in relation to the audit work auditors need to undertake in relation to Council Tax Support and Business Rates income in the statement of accounts, but this amount is yet to be finalised.

(iv) We will provide a final figure for the Pension Fund audit at the next Audit Committee, once we have completed our audit work in relation to the additional risk in relation to pooled investment vehicles. Please note that the £21,000 fee proposal represents the Audit Commission scale fee that is relevant for entities who do not have pooled investment vehicles. We also incur additional fees on the Pension Fund audit as the Annual Report is not prepared at the same time as the statement of accounts, and hence needs to be subject to a separate review.

(v) Our fee for certification of grants and claims is yet to be finalised for 2013/14 and will be reported to those charged with governance in December 2014 within the Certification Report to Management in relation to 2013/14 grants.

Appendices

Appendix 1: Summary of uncorrected misstatements

We found the following misstatements during the audit that have not been adjusted by management. You are requested to consider these formally and determine whether you would wish the accounts to be amended. If the misstatements are not adjusted we will need a written representation from you explaining your reasons for not making the adjustments.

Please see the table below for details.

No	Description of misstatement (factual, judgemental, projected)		Income statement		Balance sheet	
			Dr	Cr	Dr	Cr
1	Dr Payments in advance	F			44,978	
	Cr Operating expenses			44,978		
	Dr Payments in advance	*P*			*784,564*	
	Cr Operating expenses			*784,564*		
	Being an adjustment to account for the expenditure related to 2014/15 as payment in advance. In testing operating expenditure, we identified £44,978 of expenditure related to 2014/15 was incorrectly accounted for as expenditure for 2013/14. We then projected this misstatement to assess the potential misstatement in the remaining untested population. The projected misstatement is £784,564 giving the total misstatement of £829,542.					
2	Dr Property, Plant and Equipment	F			288,788	
	Cr Operating expenses			288,788		
	Dr Property, Plant and Equipment	*P*			*694,674*	
	Cr Operating expenses			*694,674*		
	Being an adjustment to capitalise the schools' capital expenditure which was incorrectly expensed. In testing operating expenditure, we identified £288,788 of capital expenditure, which was incorrectly expensed. We then projected this misstatement to assess the potential misstatement in the remaining untested population of schools' capital expenditure. The projected misstatement is £694,674 giving the total misstatement of £983,462.					
3	Dr Property, Plant and Equipment	F			810,221	
	Cr Operating expenses			810,221		
	Being an adjustment to capitalise the Council's capital expenditure which was incorrectly expensed. In testing operating expenditure, we identified £458350 of highway surfacing expenditure, which should be capitalised as it enhanced the value and life of the asset but was incorrectly expensed. We were able to identify all the related errors totalling £810,221.					
Total uncorrected misstatements			**-**	**2,623,225**	**2,623,225**	**-**

Appendix 2: Letter of representation

[LB Havering letterhead]

PricewaterhouseCoopers LLP

7 More London Riverside

London

SE1 2RT

Dear Sirs

Representation letter – audit of The London Borough of Havering (the Authority) Statement of Accounts for the year ended 31 March 2014

Your audit is conducted for the purpose of expressing an opinion as to whether the Statement of Accounts of the Authority give a true and fair view of the affairs of the Authority as at 31 March 2014 and of its deficit and cash flows for the year then ended and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 supported by the Service Reporting Code of Practice 2013/14.

I acknowledge my responsibilities as Group Director of Finance Resources for preparing the Statement of Accounts as set out in the Statement of Responsibilities for the Statement of Accounts. I also acknowledge my responsibility for the administration of the financial affairs of the authority and that I am responsible for making accurate representations to you.

I confirm that the following representations are made on the basis of enquiries of other chief officers and members of the Authority with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy myself that I can properly make each of the following representations to you.

I confirm, to the best of my knowledge and belief, and having made the appropriate enquiries, the following representations:

Statement of Accounts

- I have fulfilled my responsibilities for the preparation of the Statement of Accounts in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 supported by the Service Reporting Code of Practice 2013/14; in particular the Statement of Accounts give a true and fair view in accordance therewith.
- All transactions have been recorded in the accounting records and are reflected in the Statement of Accounts.
- Significant assumptions used by the Authority in making accounting estimates, including those surrounding measurement at fair value, are reasonable.
- All events subsequent to the date of the Statement of Accounts for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 requires adjustment or disclosure have been adjusted or disclosed.
- The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the Statement of Accounts as a whole. A list of the uncorrected misstatements is attached to this letter.
- Regarding bad debt allowances, council tax income and accruals; accounting estimates that were recognised in the Statement of Accounts:
  - I confirm the Authority have used appropriate measurement processes, including related assumptions and models, in determining the accounting estimates in the context of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.
  - Measurement processes were consistently applied from year to year.
  - The assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the authority, where relevant to the accounting estimates and disclosures.
  - Disclosures related to accounting estimates are complete and appropriate under the CIPFA/ CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.
  - No subsequent event requires adjustment to the accounting estimates and disclosures included in the Statement of Accounts.

Additional written representations about the Statement of Accounts

- The selection and application of accounting policies are appropriate.
- The following have been recognised, measured, presented or disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14:

- Plans or intentions that may affect the carrying value or classification of assets and liabilities;
- Liabilities, both actual and contingent;
- Title to, or control over assets, liens or encumbrances on assets, and assets pledged as collateral; and
- Aspects of laws, regulations and contractual agreements that may affect the statement of accounts, including non-compliance.

Information Provided

- I have taken all the steps that I ought to have taken in order to make myself aware of any relevant audit information and to establish that you, the authority's auditors, are aware of that information.
- I have provided you with:
  - access to all information of which I am aware that is relevant to the preparation of the Statement of Accounts such as records, documentation and other matters, including minutes of the Authority and its committees, and relevant management meetings;
  - additional information that you have requested from us for the purpose of the audit; and- unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
- I have communicated to you all deficiencies in internal control of which I am aware.
- So far as I am aware, there is no relevant audit information of which you are unaware.

Accounting policies

- I confirm that I have reviewed the Authority's accounting policies and estimation techniques and, having regard to the possible alternative policies and techniques, the accounting policies and estimation techniques selected for use in the preparation of Statement of Accounts are appropriate to give a true and fair view for the authority's particular circumstances.

Fraud and non-compliance with laws and regulations

- I acknowledge responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- I have disclosed to you:
  - the results of our assessment of the risk that the Statement of Accounts may be materially misstated as a result of fraud.
  - all information in relation to fraud or suspected fraud that we are aware of and that affects the Authority and involves:
  - ▪ management;
  - ▪ employees who have significant roles in internal control; or
  - ▪ others where the fraud could have a material effect on the Statement of Accounts.

- all information in relation to allegations of fraud, or suspected fraud, affecting the Authority's Statement of Accounts communicated by employees, former employees, analysts, regulators or others.
- all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing Statement of Accounts.

- I am not aware of any instances of actual or potential breaches of or non-compliance with laws and regulations which provide a legal framework within which the Authority conducts its business and which are central to the authority's ability to conduct its business or that could have a material effect on the Statement of Accounts.
- I am not aware of any irregularities, or allegations of irregularities including fraud, involving members, management or employees who have a significant role in the accounting and internal control systems, or that could have a material effect on the Statement of Accounts.

Related party transactions

- I confirm that the attached appendix to this letter is a complete list of the Authority's related parties. All transfer of resources, services or obligations between the Authority and these parties have been disclosed to you, regardless of whether a price is charged. We are unaware of any other related parties, or transactions between disclosed related parties.
- Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Section 3.9 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.
- We confirm that we have identified to you all senior officers, as defined by the Accounts and Audit Regulations 2011, and included their remuneration in the disclosures of senior officer remuneration.
- Except as disclosed in the statement of accounts, no transactions involving members, officers and others requiring disclosure in the Statement of Accounts under the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 have been entered into.

Employee Benefits

- I confirm that we have made you aware of all employee benefit schemes in which employees of the authority participate.

Contractual arrangements/agreements

- All contractual arrangements (including side-letters to agreements) entered into by the Authority have been properly reflected in the accounting records or, where material (or potentially material) to the statement of accounts, have been disclosed to you.
- The Authority has complied with all aspects of contractual agreements that could have a material effect on the Statement of Accounts in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the Statement of Accounts in the event of non-compliance.
- I have disclosed all material agreements that have been undertaken by the Authority in carrying on its business.

Litigation and claims

- I have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the statement of accounts and such matters have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Taxation

- I have complied with UK taxation requirements and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any direct tax or any indirect taxes. I am not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest and I have made full disclosure regarding any Revenue Authority queries or investigations that we are aware of or that are ongoing. In particular:
    - In connection with any tax accounting requirements, I am satisfied that our systems are capable of identifying all material tax liabilities and transactions subject to tax and have maintained all documents and records required to be kept by the relevant tax authorities in accordance with UK law or in accordance with any agreement reached with such authorities.
    - I have submitted all returns and made all payments that were required to be made (within the relevant time limits) to the relevant tax authorities including any return requiring us to disclose any tax planning transactions that have been undertaken the authority's benefit or any other party's benefit.
    - I am not aware of any taxation, penalties or interest that are yet to be assessed relating to either the authority or any associated company for whose taxation liabilities the authority may be responsible.

Pension fund

- All known assets and liabilities including contingent liabilities, as at the 31 March 2014, have been taken into account or referred to in the Statement of Accounts.
- Details of all financial instruments, including derivatives, entered into during the year have been made available to you. Any such instruments open at the 31 March 2014 have been properly valued and that valuation incorporated into the Statement of Accounts.
- The pension fund has satisfactory title to all assets and there are no liens or encumbrances on the pension fund's assets.
- The value at which assets and liabilities are recorded in the net assets statement is, in the opinion of the authority, the market value. We are responsible for the reasonableness of any significant assumptions underlying the valuation, including consideration of whether they appropriately reflect our intent and ability to carry out specific courses of action on behalf of the pension fund. Any significant changes in those values since the date of the Statement of Accounts have been disclosed to you.
- Scheme documentation is fully up to date.
- No transactions have been made which are not in the interests of the scheme members or the scheme during the scheme year or subsequently;
- There has been no 'self-investment' in a scheme employer or stock-lending;
- The financial statements include some estimated figures that are based on assumptions made by the Fund. Estimates made take into account historical experience, current trends, expertise of advisors and fund managers and other relevant factors.

Pension fund registered status

- I confirm that the Havering Pension Fund is a Registered Pension Scheme. We are not aware of any reason why the tax status of the scheme should change.

Bank accounts

- I confirm that I have disclosed all bank accounts to you including those that are maintained in respect of the pension fund.

Subsequent events

- Other than as described in the Statement of Accounts, there have been no circumstances or events subsequent to the period end which require adjustment of or disclosure in the statement of accounts or in the notes thereto.

Provisions

- Provisions for depreciation and diminution in value including obsolescence have been made against property, plant and equipment on the bases described in the statement of accounts and at rates calculated to reduce the net book amount of each asset to its estimated residual value by the end of its probable useful life in the authority's business. In this respect I am satisfied that the probable useful lives have been realistically estimated and that the residual values are expressed in current terms.
- Full provision has been made for all liabilities at the balance sheet date including guarantees, commitments (in particular in relation to redundancy plans) and contingencies where the items are expected to result in significant loss. Other such items, where in my opinion provision is unnecessary, have been appropriately disclosed in the statement of accounts.

Using the work of experts

- I agree with the findings of Wilks, Head & Eve LLP and the Council's own property experts; experts in evaluating the valuation of the Authority's property, plant and equipment and investment properties and have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the Statement of Accounts and underlying accounting records.
- I agree the assumptions used by WH&E and the Council's own property expert are appropriate; in particular;
  - the useful economic lives accurately reflect the remaining lives of the assets
  - I consider it appropriate to not deduct purchaser costs from the gross capital value in their Existing Use Value or Market Value valuation
  - valuations have assumed assets are at a suitable level of condition for service provision unless circumstances indicate that a specific property has a limited economic life
  - I consider it appropriate to apportion land values using a percentage of building costs
- The Authority did not give or cause any instructions to be given to experts with respect to the values or amounts derived in an attempt to bias their work, and I am not otherwise aware of any matters that have had an impact on the objectivity of the experts.

Assets and liabilities

- The Authority has no plans or intentions that may materially alter the carrying value and where relevant the fair value measurements or classification of assets and liabilities reflected in the Statement of Accounts.
- In my opinion, on realisation in the ordinary course of the business the current assets in the balance sheet are expected to produce no less than the net book amounts at which they are stated.

- The Authority has no plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
- The Authority has satisfactory title to all assets and there are no liens or encumbrances on the Authority's assets, except for those that are disclosed in the Statement of Accounts.
- The Authority confirms its intentions to dispose of assets disclosed as assets held for sale within the next twelve months.
- I confirm that we have carried out impairment reviews appropriately, including an assessment of when such reviews are required, where they are not mandatory. I confirm that we have used the appropriate assumptions with those reviews.
- Details of all financial instruments, entered into during the year have been made available to you. Any such instruments open at the year-end have been properly valued and that valuation incorporated into the statement of accounts.
- Where fair values have been assigned to financial instruments, I confirm that the valuation techniques, the inputs to those techniques and assumptions that have been made are appropriate and reflect market conditions at the balance sheet date, and are in line with the business environment in which we operate.

Disclosures

- Where appropriate, the following have been properly recorded and adequately disclosed in the statement of accounts:

- The identity of, and balances and transactions with, related parties.
- Losses arising from sale and purchase commitments.
- Agreements and options to buy back assets previously sold.
- Assets pledged as collateral.

- I confirm that the Authority has recorded or disclosed, as appropriate, all formal or informal arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line of credit or similar arrangements.
- I confirm that the Authority has recorded or disclosed, as appropriate, all liabilities, both actual and contingent, and has disclosed in the statement of accounts all guarantees that we have given to third parties, including oral guarantees made by the Authority on behalf of an affiliate, member, officer or any other third party.

Retirement benefits

- All significant retirement benefits that the Authority is committed to providing, including any arrangements that are statutory, contractual or implicit in the authority's actions, wherever they arise, whether funded or unfunded, approved or unapproved, have been identified and properly accounted for and/or disclosed.
- All settlements and curtailments in respect of retirement benefit schemes have been identified and properly accounted for.

- The Authority participates in the Teachers' Pension Scheme; a defined benefit scheme. I confirm that the authority's share of the underlying assets and liabilities of this scheme cannot be identified and as a consequence the scheme has been accounted for as a defined contribution scheme.
- The following actuarial assumptions underlying the valuation of retirement benefit scheme liabilities are consistent with my knowledge of the business and in my view would lead to the best estimate of the future cash flows that will arise under the scheme liabilities:
  - Longevity at 65 for current pensioners is estimated to be 22.1 years for men and 24.1 years for women
  - Longevity at 65 for future pensioners is estimated to be 24.2 years for men and 26.7 years for women
  - The rate of inflation and the rate of increase in pensions is anticipated to be 2.6%
  - The rate of increase in salaries is anticipated to be 3.4%
  - The discount rate is estimated at 4.1%

Items specific to Local Government

- I confirm that the Authority does not have plans to implement any redundancy/early retirement programmes other than those disclosed in note 42 to the Statement of Accounts for which we should have made provision in the Statement of Accounts.
- I confirm that the Authority has determined a prudent amount of revenue provision for the year under the Prudential Framework.
- I confirm that the Authority has determined a proper application of the statutory provisions for the treatment of leases that have changed status on transition to IFRS.
- I confirm that the Authority has determined a proper application of the statutory provisions for the neutralisation of the impact of accumulating compensated absences on the General Fund balance.

As minuted by the Audit Committee at its meeting on 25/09/2014

....

Group Director of Finance and Resources

For and on behalf of

Date ....

Appendix 1 - Related parties and related party transactions

This is the list of all related parties:

Adamsgate Action Group	King Harold RA Chapter
Age Concern Havering	Lee Valley Regional Park Authority
Avelon Road Centre	Local Government Association
Barking, Havering and Redbridge University Hospitals NHS Trust	Local Government Information Unit
Beauty Box One	Local Government Urban Commission
Bellenden	London Accident Prevention Council
Brayards Estate Tenants & Residents Association	London Assembly
Charities Of Richard Poyntz And Others	London City Airport Committee
College (UK) Co. Ltd - Driving School	London Councils
Connexions	London Football Association
Cranham Metropolitan Police	London Home & Water Safety Council
Crowlands Driving School	London Local Authority Arts Forum
Damyns Hall Aerodrome	London Mayor's Association
East and south East London Transport Partnership	London Road Safety Council
East London Partnership	London Youth Games Limited

East London Waste Authority	Lucas Children's Play Charity
East of London Family History Society	Mardyke Community Centre
Education Foundation at Coopers & Coburn School	MEND programme
Emerson Park Community Association	National Trust
English Heritage	Newham Sports Council
Essex Quadrant Lodge	North East London NHS foundation Trust
Essex Wildlife Trust	North Romford Community Association
Euro - Altantic Group	North Weald Airfield Museum
European Committee of the Regions	Old Ford Board of Management
First Step	Old Ford Housing Association
Forces for Their Future	Orchard Village B
Friends of Clockhouse Garden	Orchard Village Neighbourhood Board
Friends of Havering Museum	Parkhill Estate Tenant Resident Association
Friends of Parklands	Peter Merry's Limited
George Copsey & Co LTD	President Upminster Air Training Corps
Gidea park & District Civic Society	Prime Minister's Champion Group on Dementia Friendly Communities
GMB	Rainham Food Bank
Governance Risk Compliance Global Ltd	Rainham Goldmine Jewellers,

Governor Panel	Relate North East London
Governors Appointment Panel	Reserve Forces & Cadets Association
Greater London Entreprise Ltd	Romford Baptist Church Member
Harold Hill & District Community Association	Romford British Legion Youth Band
Harold Wood Neighbourhood Centre	Romford Carnival Committee
Havering Admission forum	Romford Combined Charity
Havering and Brentwood Bereavement Service	Romford Town Centre Partnership
Havering Arts Council	Royal British Legion
Havering Association for People with Disabilities	Royal Naval Medical Association Trust
Havering Bands and Majorettes Association	Royal Society for the Protection of Birds
Havering Care Homes Ltd	Rush Green Community Centre
Havering Carers Panel	Second Chance - Theatre for the People
Havering Chamber of Commerce and Industry	Silver Sunday
Havering College of Adult Education	South Hornchurch Community Centre
Havering College of Further & Higher Education	Standing Advisory Council for Religious Education
Havering Community and Police Consultative Group	Studio 3 Arts

Havering Community Safety Partnership	Submerged Scuba
Havering East Rotary Club	Supreme Grand Council
Havering Interfaith Forum	Taxpayers Alliance
Havering Joint Forum	Tenant Compact Working Party
Havering Local Strategic Partnership	Tenants Management Organisations
Havering Museum Ltd	Thames Chase Joint Committee
Havering Old People's Welfare Association Council	Thames Chase Trust
Havering Over 50's Forum	Thames Regional Flood Defence Committee
Havering Residents' Association	The Bruges Group
Havering Sixth Form College	The Freedom Association
Havering Sports Council	United Grand Lodge of England
Havering Theatre Trust	Unversity of East London
Honorable Society of Lincoln's Inn	Upminister & Cranham Residents Association
Hornchurch & Upminster Conservative Association	Upminster Old School Foundation
Hornchurch Housing Trust	Upminster Windmill Preservation Trust
Housing ALMO Board	Van Store / Baggage Express
International Institute for Strategic Studies	Veolia ES Cleanaway Havering Riverside Maintenance Trust
IWMS Contract Liaison Committee	Water Safety Committee

Transactions were identified between the Authority and the following related parties:

Age Concern Havering	Havering Sports Council
Barking, Havering and Redbridge University Hospitals NHS Trust	Havering Theatre Trust
East London Waste Authority	Hornchurch Housing Trust
First Step	Lee Valley Regional Park Authority
GMB	Local Government Association
Harold Hill & District Community Association	London Mayor's Association
Harold Wood Neighbourhood Centre	London Road Safety Council
Havering and Brentwood Bereavement Service	North East London NHS foundation Trust
Havering Arts Council	North Romford Community Association
Havering Association for People with Disabilities	Old Ford Housing Association
Havering Care Homes Ltd	Relate North East London
Havering College of Further & Higher Education	Romford Baptist Church Member
Havering Museum Ltd	Studio 3 Arts
Havering Over 50's Forum	Thames Chase Trust
Havering Sixth Form College	

Appendix 2 – Summary of Uncorrected Misstatements

The following misstatements during the audit that have not been adjusted for were identified.

Uncorrected Disclosure Adjustments

- The prior year figure for depreciation, impairment and downward revaluation of £60,464k per the cash flow statement, operating activities note should be listed as £67,572k for consistency with the unusable reserves note. This misstatement is only a disclosure issue affecting the classification of the cash flow amounts between different categories as the year end cash balances agreed to the balance sheet figure; as such it has not been amended.

Uncorrected accounting adjustments

See the table below for details:

No	Description of Misstatement (factual, judgemental, projected)		Income Statement		Balance Sheet	
			Dr	Cr	Dr	Cr
1	**Dr Payments in advance** **Cr Operating expenses** ***Dr Payments in advance*** ***Cr Operating expenses*** Being an adjustment to account for the expenditure related to 2014/15 as payment in advance. In testing operating expenditure, we identified £44,978 of expenditure related to 2014/15 was incorrectly accounted for as expenditure for 2013/14. We then projected this misstatement to assess the potential misstatement in the remaining untested population. The projected misstatement is £784,564 giving the total misstatement of £829,542.	**F** ***P***		**£44,978** ***£784,564***	**£44,978** ***£784,564***	

2	**Dr Property, Plant and Equipment** **Cr Operating expenses** ***Dr Property, Plant and Equipment*** ***Cr Operating expenses*** Being an adjustment to capitalise the schools' capital expenditure which was incorrectly expensed. In testing operating expenditure, we identified £288,788 of capital expenditure, which was incorrectly expensed. We then projected this misstatement to assess the potential misstatement in the remaining untested population of schools' capital expenditure. The projected misstatement is £694,674 giving the total misstatement of £983,462.	**F** ***P***		 **£288,788** ***£694,674***	**£288,788** ***£694,674***	
3	**Dr Property, Plant and Equipment** **Cr Operating expenses** Being an adjustment to capitalise the Council's capital expenditure which was incorrectly expensed. In testing operating expenditure, we identified £458350 of highway surfacing expenditure, which should be capitalised as it enhanced the value and life of the asset but was incorrectly expensed. We were able to identify all the related errors totalling £810,221.	**F**		 **£810,221**	**£810,221**	
Total uncorrected misstatements:				**2,623,225**	**2,623,225**	

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE **23 September 2014**	

Subject Heading:	Local Government Pension Scheme London Borough of Havering Employer Discretions Statement of Policy and discretion decisions
Report Author and contact details:	Contact: Karen Balam Designation: Transactional Manager Telephone: (01708) 432271 E-mail Address: Karen.balam@oneSource.co.uk
Policy context:	The Council's Discretionary Policies covered by the Local Government Pension Regulations
Financial summary:	There may be some savings, and avoidance of costs, for the Council as an employer and the fund as a result of these changes but they are not quantifiable and likely to be minimal

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	[X]

SUMMARY

As a result of the changes in the Local Government Pension Scheme Regulations (LGPS) 2013 and the Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014 (the latter published on 10th March 2014), Scheme employers participating in the LGPS in England and Wales had to formulate, publish and keep under review a Statement of Policy on certain discretions which they have the power to exercise in relation to members of the Career Average Revalued

Earnings (CARE) Scheme. The Scheme employer was required to send a copy of its statement to the relevant administering authority before the 1st July 2014 and also had to publish its statement. Scheme employers were also required to (or where there was no requirement, were recommended to) formulate, publish and keep under review a Statement of Policy on certain other discretions they may exercise in relation to members of the LGPS arising from the 2013 Regulations, 2014 Transitional Regulations and prior Local Government Pension Scheme Regulations.

At the Pension Committee of the 24 June 2014 the Committee delegated to the Group Director of Resources, the Director of Human Resources and Organisational Development, and the Council's Monitoring Officer, acting jointly, the setting of the discretion decisions and Policy Statement. Following the setting of the discretion decisions and Policy Statement, the final discretion decisions and Policy Statement would be brought back to Committee for information.

RECOMMENDATIONS

It is recommended that the Pensions Committee:

1 Note the final employer discretion decisions and Policy Statement for the London Borough of Havering have been brought back to Committee for information.

REPORT DETAIL

1 Introduction

1.1 The Local Government Pension Scheme Regulations define the details of the scheme for members, employing authorities and the administering authority (Havering Pension Fund, as part of the London Borough of Havering). The LGPS Regulations do allow both Havering Pension Fund and the employing authorities' discretion over various elements of the pension scheme. In formulating and reviewing its policy, the Scheme employer must have regard to the extent to which the exercise of its discretionary powers could lead to a serious loss of confidence in the public service.

1.2 Due to the Local Government Elections 2014, the lateness of the publication of the Transitional Regulations 2014 (10th March 2014), and awaiting the new scheme detailed guidance from the Government and the Government Actuary it was not possible to bring a final report to Committee until September 2014.

2 Review of Discretions

2.1 The new scheme has been operational from 1 April 2014 and there is a regulatory requirement under the LGPS 2013 (Regulation 60) and Transitional Regulations 2014 (Schedule 2, Paragraph 2) to agree the new and revised discretion decisions and a Policy Statement before the 1st July 2014. It is also understood that where the 1st July was not achievable the Pension Regulator would only seek assurance that the employer was working towards completing the review of the Policy Statement and discretions.
.

2.2 An in-depth review of the previous employer discretions, together with the new required discretions as a result of the LGPS Regulations 2013 and Transitional Regulations 2014, has been carried out by the Fund Actuaries Hymans Robertson LLP. This review informed the Group Director of Resources, the Director of Human Resources and Organisational Development, and the Council's Monitoring Officer, acting jointly, in the setting of the discretion decisions and Policy Statement when they met on the 26 July 2014. Following this the Policy Statement was published through varies communication channels, including the Havering Pensions website, as well as being shared with other scheme employers. The jointly agreed and reviewed Policy Statement and discretion decisions are attached at Appendix A.

2.3 In reviewing the discretions and making recommendations for the application of the discretions by the Council as an employer, Hymans have ensured that each discretion is exercised in a manner that does not 'fetter' the Council's discretion, and ensures decisions taken would review the individual circumstances of each particular case as necessary.

2.4 The recommendations also ensure that the discretions are carried out:

- In a fair and reasonable manner;
- Without knee jerk reactions;
- With consistency;
- With flexibility for any peculiar circumstances;
- With potential for review to allow consideration of changes (such as the financial status of the Council).

2.5 The discretions will be reviewed every three years in line with the triennial valuation, to coincide and take account of the results of the valuation. Where there are regulatory and legislative changes that impact on discretions, a review would be carried out on those between valuations under delegation to the Pension Panel.

IMPLICATIONS AND RISKS

Financial implications and risks:

Employer decisions on the application of discretions can give rise to strain costs being payable by the employer to the fund. Strain costs are the capitalised financial value of the impact on the fund when a member draws their pension benefits before their Normal or State Pension Age (for whatever reason).

Factors that influence the strain costs are the members' age, length of service, gender and marital status. The impact on the fund is the loss of future contribution streams from the employee and the member, and paying out benefits earlier than anticipated. The following employer decisions and circumstances will give rise to a strain cost:

Generally where a strain costs arises due to an employer decision, such as waiving actuarial reductions or sharing the cost of buying additional pension, the strain costs will be met by the employer and not the Pension Fund.

Ill-health retirement at any age is not an employer discretion and generally may not give rise to strain costs being payable by an employer **but** this is dependent upon the ill-health retirements assumed by the Fund actuary. Employer strain cost balance and increase in future contributions may arise. New scheme employers and admitted bodies are made aware by the Administration team of the potential significant level of strain costs of tier 1 ill-health retirement.

If an LGPS member dies in service a death grant of three time the member's final pay is paid, subject to them being under 75 at the date of death, together with a survivors pension. These costs would normally be met by the Fund but will ultimately be reflected in future contribution rates.

Legal implications and risks:

The ambit of the areas of discretion is relatively limited, the major elements of the LGPS being fixed by legislation. In determining the policy on individual discretions a key element will be the possible impact on the pension fund from any particular discretion.

The setting of a policy on discretions creates the starting point or 'standard' response to a decision on the exercise of a discretion, but on each occasion there is the possibility that the particular circumstances of the case will justify a departure from the policy. However in practice it will probably be comparatively rare that there is evidence that justifies a departure from the policy.

Human Resources implications and risks:

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

Equalities implications and risks:

There is no direct impact on the pension or pension entitlement for individuals or groups with protected characteristics arising from this report.

However, in drafting any policy, whether it be an "each case on its merits" policy, one that applies a standard approach, or even one that utilises either approach depending on the circumstances, Employers will need to have due regard to the Employment Equality (Age) Regulations 2006 and the Public Sector Equality Duty, as set out in the Equality Act 2010.

The policy should be informed by an equality impact assessment assessing the impact on affected staff groups with protected characteristics. If any age-related criteria or criteria that could be directly or indirectly age discriminatory are applied, the Employer must be able to demonstrate that their decision is based on objective justification and that it is a 'proportionate' means of achieving a 'legitimate' aim.

The benefits payable from the London Borough of Havering Pension Fund are almost exclusively determined by the Department for Communities and Local Government (through the Local Government Pension Scheme Regulations) or in a small number of cases, by the scheme member's employer. The benefits package is rarely, if ever, within the control of the Fund to adjust. All eligible employees working for employers in the pension scheme are automatically admitted as a member of the Scheme unless they choose to opt-out. Each employer is responsible for informing the London Borough of Havering of new eligible employees joining the Scheme and those who later decide to leave.

DCLG has published an equality statement, assessing the equality impact of the Local Government Pension Scheme reforms (2014 Scheme) using the current, 2008 Scheme as a baseline. The equality statement considers the impacts, both positive and negative, of the reforms on groups with protected characteristics. Decision-makers are advised to refer to the above equality analysis for further information of the impact on people with protected characteristics.

BACKGROUND PAPERS

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

Local Government Pension Scheme Employer Discretions report, Pensions Committee, 24 June 2014 (http://www.havering.gov.uk/Pages/Category/Council-and-democracy.aspx.

Previous reports to the Pensions Committee regarding the changes to the Local Government Pension Scheme can be viewed on the Council's website (http://www.havering.gov.uk/Pages/Category/Council-and-democracy.aspx).

Hymans Robertson LLP detailed review 'Employing Authority Discretions in the Local Government Pension Scheme Regulations'

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London Borough of Havering
Employing Authority Discretions
Statement of Policy

1) Determination of contribution rate and how it will be determined (9(1) and 9(3))

- The employee contribution band will be reviewed each April.
- Contributions are payable on all pay received such as non-contractual overtime or additional hours. Reductions in pay due to sickness, child related leave etc. are ignored. The salary used to determine the band will be assessed by taking into account basic salary each April plus any additional hours or overtime that were paid for in the previous financial year.

2) Funding of additional pension contributions (16(2)(e) and 16(4)(d)) (LGPS 2013)

Where APCs are to be paid by regular contributions, whether to fund in whole or in part a members additional pension contribution. The maximum additional pension which can be purchased from 1 April 2014 is £6,500. (16(2)(e))

Where APCs are to be paid by a lump sum contribution, whether to fund in whole or in part members additional pension contribution. The maximum additional pension which can be purchased from 1 April 2014 is £6,500. (16(4)(d))

The Council will generally not contribute by either regular contributions or lump sum contribution towards a members additional pension contributions but may determine on a case by case basis if there has been any operational benefit gained by the employer and if so whether the APC should be wholly or partly funded. Strike action will not be funded.

3) Flexible retirement (30(6)) (LGPS 2013)

Whether to allow an active member, who has attained the age of 55 or over, who reduces their working hours or grade, to receive immediate payment of all or part of their retirement pension to which the member is entitled to n respect of that employment, subject to an actuarial reduction.

The Council has decided to allow flexible retirement in cases where there is normally no or minimal cost to the Council on a case by case basis, ensuring the detailed merits of each individual case is taken into account. Employees can choose to draw all of their pension benefits or defer payment of all or part of their fund which has accrued since 1 April 2008. The following criteria will apply: there must be at least at 25% reduction in pay or hours; the member may not move to another promotion post with the Council and/or increase their hours following flexible retirement; will not be granted a 2nd or subsequent flexible retirement.

Flexible retirement will normally result in an actuarial reduction of pension benefits. In exceptional circumstances the Council may consider waiving the actuarial reduction where it is in the Council's interest to do so.

4) Waiving actuarial reduction (30(8)) (LGPS 2013)

Whether to waive, in whole or in part, any reduction to a members pension benefits as a result of a member who has not attained normal pension age but who has attained the age of 55 or over and has elected to receive immediate payment of a retirement pension.

There will normally be a reduction to the pension where employees retire before their normal pension age with insufficient service to quality for a full pension, except in compassionate grounds. Compassionate is normally defined as:

- The applicant had to leave employment to care for a dependent who is suffering from long term illness/incapacity. For this purpose dependent normally includes a partner, child or parent; and
- That the dependant's need is for constant supervision for both day and night and that this is supported by confirmation from the Benefits Agency that an Attendance Allowance at the higher rate is payable; and

- That the dependant has no recourse to alternative means of support from his/her immediate family nor the financial resources to provide independent care support (for this purpose a certified statement of income and expenditure will be required); and
- That the applicant is suffering or facing severe financial hardship, that the applicant has no other significant source of income and that their personal financial circumstances are unlikely to improve. For this purpose the applicant will be required to submit a certified statement of income and expenditure covering both the applicant and any partner living with them; and
- That the applicant's opportunities for employment are severely limited by the nature of the care duties they are undertaking.

Flexible retirement will normally result in an actuarial reduction of pension benefits. In exceptional circumstances the Council may consider waiving the actuarial reduction where it is in the Council's interest to do so.

5) Award of additional pension (31) (LGPS 2013)

Whether to award additional pension up to a maximum of £6,500 to an active member or a member who was an active member who was dismissed by reason of redundancy, or business efficiency, or whose employment was terminated by mutual consent on grounds of business efficiency within 6 months of the date the member's employment ended.

The Council will not generally apply this discretion but in extreme cases consider on a case by case basis.

6) Applying the rule of 85 (Transitional 2014)

'Switch on' the 85 year rule protection, allowing a member to receive fully or partly unreduced benefits subject to the Scheme employer paying a strain cost to the Pension Fund (Schedule 2 paragraph 2)

The Council will not usually exercise discretion to fund additional costs applicable to the 85 Year Rule for 55 to 60 year olds. However in exceptional circumstances, to be considered on individual merits on a case by case basis, where this is of benefit to the Council then the Council may exercise discretion to pay the cost waiving actuarial reductions.

7) Consenting to the immediate payment of benefits (30(2)) (LGPS 2007) and Waiving an actuarial reduction to pension benefits on compassionate grounds (30(5)) (LGPS 2007)

Whether to grant application for early payment of deferred benefits on or after age 55 and before age 60. Although this discretion relates to the old scheme and will be governed by those regulations it will still apply for members who left the scheme on or before 31 March 2014.

Whether to waive any actuarial reduction that may apply on the early payment of deferred benefits on compassionate grounds.

Elections made under this Regulation by members aged less than 60 are ineffective without employer consent of the employing authority or former employing authority. No employees will be permitted to receive early payment of benefits prior to age 60 except in compassionate cases. Applications may be granted on a case by case basis in circumstances where it may be considered to be to the Council's operational or financial advantage.

Local Government Pension Scheme Regulations 2013

Regulation	Description	Discretion application
9(1) and 9(3)	Determination of contribution rate and how it will be determined	For transferring employees on 1 April 2014 - an assessment is taken on additional hours and/or overtime payments made in previous pay periods and applied to the current pay rates to arrive at the annual rate of pay and the contribution rate relevant to that annual rate is applied. For new employees - Where possible a reasonable assessment is made and the contribution rate relevant to that annual rate is applied. A review is undertaken annually. The contribution policy is: The employee contribution band will be reviewed **each April.** Contributions are payable on all pay received such as non-contractual overtime or additional hours. Reductions in pay due to sickness, child related leave etc. are ignored. The salary used to determine your band will be assessed by taking into account basic salary each April plus any additional hours or overtime that were paid for in the previous financial year.

PUBLIC SECTOR

		A review of the initial policy will undertaken at the end of the year.
16(2)(e) and 16(4)(d)	Whether and how much and in what circumstances to contribute to a shared cost APC/SCAPC	Generally this discretion will not be exercised but delegated authority is given to the Pensions Panel to determine on a case by case basis if there has been any operational benefit gained by the employer and if so whether the APC should be wholly or partly funded. As a general rule the Council will not contribute to a shared cost APC/SCAPC where the absence is due to an unauthorised absence such as strike action.
17(1)	Establishment of a Shared Cost AVC (SCAVC) facility	The decision taken by the Investment Committee in 2001 is still relevant, therefore for the time being the Council does not set up a shared cost AVC facility.
19(2)	Right to a refund if member left due to offence of fraudulent character or grave misconduct	In the first instance withhold the return of contributions in all cases but each situation is considered on a case by case basis with delegated powers being given to the Pensions Panel
20(1)	Specify in an employee’s contract benefits to be determined as pensionable	Where the Council wishes to specify in a contract of employment that other payments or benefits may also be pensionable it is determined by the Pension Panel on a case by case basis with the appropriate business case being presented
21(5)	Determine “regular lump sum” for Assumed	Where necessary the Transactional Manager (HR, Pensions and Payroll) is given delegated authority to

	Pensionable Pay	make a determination on a case by case basis
22(7)(b)	Extension of time limit for deferred benefits to not be aggregated (concurrent employments)	Where a decision is required delegated authority is given to the Team Leader (Pensions Administration) to take account on a case by case basis of the relevant circumstances whether or not the 12 month time limit is to be extended and that the decision is communicated in writing to the scheme member within one month of the decision be made.
22(8)(b)	Extension of time limit for deferred benefits to not be aggregated	Where a decision is required delegated authority is given to the Team Leader (Pensions Administration) to take account on a case by case basis of the relevant circumstances whether or not the 12 month time limit is to be extended and that the decision is communicated in writing to the scheme member within one month of the decision be made.
30(6), 30(8) and 11(2) of the Transitional Provisions Regulations –	Flexible retirement and waiving any actuarial reduction that would apply	A business case is prepared for each request, ensuring that this includes the Fund cost and any costs of additional salaries for a new part-time post to fill the reduced capacity, as well as quantifying the benefits of agreeing to the flexible retirement. Any actuarial reduction will not be waived.
31	Power of employing authority to grant additional pension to an active member	The Council does not generally apply this discretion to award additional pension but may in extreme cases consider on a case by case basis where the full cost

		benefit is presented in a business case and agreed by the Pension Panel.
37(3)	Recovery of payments following date of discontinuance of third tier ill health pension entitlement	Where pension payments have continued to be paid after the date of discontinuance they should be recovered in all cases with the individual being notified of the repayment procedure and timescales.
37(7)	Subsequent determination on level of ill health benefit following review of third tier ill health award as to whether tier two ill health benefits should apply.	Where in the opinion of the medical adviser and any other relevant information available in each individual case, if the member at the time of the review of their tier 3 ill health entitlement, satisfies the requirements of a tier 2 ill health pension the Council agrees and determines to put the increased ill health pension into payment. Where the member does not satisfy the requirements of a tier 2 ill health pension all the facts of the case are presented to the Pension Panel for a final determination.
38(6)	Decision whether a deferred and deferred pensioner member meets criteria for early payment due to permanent ill health	Where the Council is required to make a determination as to agreeing to the early payment of a deferred pension on the grounds of permanent ill health once the opinion has been received from the IRMP, all the facts of the case are presented to the Pension Panel for a final determination.
91 to 93	Forfeiture of pension rights as a result of offences or misconduct	The Council will seek recovery of any loss it has suffered and any such cases are referred to the Pension Panel to be considered

95	Impact of forfeiture decision on surviving spouse or civil partner	The Council will seek recovery of any loss it has suffered and any such cases are referred to the Pension Panel to be considered.
98(1)(b)	Agreement to a bulk transfer	Each opportunity is determined on a case by case basis with delegated authority given to the Transactional Manager (Exchequer and Transactional) in consultation with the Fund actuary.
100(6)	Extension of time limit to accept a transfer value	Where discretion needs to be exercised it is determined on a case by case basis with delegated authority given to the Team Leader (Pensions Administration).

Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014

Regulation	Description	Discretion application
3(6), 4(6)(c), 6(4), 10(2)(a), 17(2) and 17(2)(b)	Agreement to member selecting final pay period for fees	Where a scheme member's final pay consists of fees then the use of a period of three years ending on 31st March in last ten will be permitted so as to have a fairer fee figure used in the calculation of benefits.
12(6)	Use of an ill health certificate produced under the 2008 scheme	Delegated authority is given to the Team Leader (Pensions Administration) to agree the use of a certificate produced under the 2008 scheme on a case by case basis.
	Continuing contribution in to a Shared Cost AVC	The Council did not agree to the setting up of a Shared Cost AVC (SCAVC) facility so therefore this discretion

	(SCAVC) facility	does not apply.
15(1)(d)	Allow late application to convert scheme AVCs into membership credit	Where an election is received late then delegated authority is given to the Team Leader (Pensions Administration) to determine on a case by case basis.
Schedule 2 para 2 –	Applying the rule of 85	• If the member satisfies the 85 year rule, that part of the member's benefits accrued under the Earlier Scheme(s) which is calculated by reference to any period of membership before the 1 April 2014 is reduced by reference to the period between the date of the request and age 60. • If the member does not satisfy the 85 year rule, that part of the member's benefits accrued under the Earlier Scheme(s) which is calculated by reference to any period of membership before the 1 April 2014 is reduced by reference to the period between the date of the request and the date the member would satisfy the 85 year rule, or age 60 if later. Each case be dealt with on a case by case basis and although generally the 85 year rule will be applied as above, where there may be a circumstance for a different application agreement is sought from the Pension Panel.

Discretions in relation to scheme members (excluding councillor members) who ceased active membership on or after 1 April 2008 and before 1 April 2014

Discretions in relation to the Local Government Pension Scheme (Benefits Membership and Contributions) Regulations 2007

Regulation	Description	Discretion application
11(2)	Final pay period to be used where a member's pay consists of fees	Where a scheme member's final pay consists of fees then the use of a period of three years ending on 31st March in last ten will be permitted so as to have a fairer fee figure used in the calculation of benefits.
12	Increase total membership for an active member (This will be spent after 30 September 2014)	For the remaining period for which this discretion will apply that the Council will not agree to the award of increased membership.
30(2) and 30A(3)	Consenting to the immediate payment of benefits between age 55 and 60	No applications are permitted to receive early payment of their unreduced benefits prior to age 60 except in compassionate cases. Applications may be granted on a case by case basis in circumstances where it may be considered to be to the Council's operational or financial advantage subject to a business case to the Pension Panel.
30(5)	Waiving an actuarial reduction to pension benefits on compassionate grounds	The waiving of an actuarial reduction on compassionate grounds will be considered on a case by case basis with

		the following criteria taken into consideration– Leave employment to care for dependent Dependents need for constant supervision No recourse to alternative care Suffering severe hardship Opportunity for employment severely limited If all the above criteria are met the Pension Panel will consider such cases, and that any costs that are incurred are paid by the relevant service/department. Any actuarial reduction that may apply will not be waived.
30A(3)	Consenting to application of payment for a suspended tier 3 ill health pension	Generally applications will not be agreed but may be granted on a case by case basis with all circumstances being taken account and to be determined by the Pension Panel. Where the Council is required to make a determination as to agreeing to the early payment of a deferred pension on the grounds of permanent ill health that once the opinion has been received from the IRMP, all the facts of the case will be presented to the Pension Panel for a final determination.
30A(5)	To waive actuarial on compassionate grounds	The Pension Panel will determine each application on a case by case basis and that it will only agree to the

		waiving of an actuarial reduction in extreme circumstances where the application has been enforced on the member due to unforeseen circumstances or circumstances beyond their control.
Regulation 31(4) and 31(7)-	Determine payment of deferred pension on health grounds. Decision whether a deferred or deferred pensioner member meets criteria for early payment due to permanent ill health	Where the Council is required to make a determination as to agreeing to the early payment of a deferred pension on the grounds of permanent ill health once the opinion has been received from the IRMP all the facts of the case are presented to the Pension Panel for a final determination.

Discretions in relation to the Local Government Pension Scheme (Administration) Regulations 2008

Regulation	Description	Discretion application
Regulation 47(2)	Payment of a refund of contributions in misconduct cases	In the first instance the return of contributions will be withheld in all cases but each situation is considered on a case by case basis with delegated powers being given to the Pension Panel.
72 to 76	Forfeiture of pension rights as a result of offences or misconduct	The Council seeks recovery of any loss it has suffered and any such cases are referred to the Pension Panel.

Discretions in relation to the Local Government Pension Scheme Regulations 1997 (The 1997 Pension Regulations) (some may continue to apply in relation to historical cases or councillors)

There are a number of regulations within the former 1997 Pension Regulations that apply to councillors who elect to join the LGPS. Where discretions are applicable in relation to active councillor members they should be applied as they are mirrored within the LGPS Regulations applicable from 1 April 2014.

Regulation	Description	Discretion application
22(1)(b)	Allow post 31 March 1998 / pre 1 April 2008 member to select final pay period for fees to be a period of not less than 3 or more than 5 years back from date of leaving	Delegated powers have been given to the Pension Panel
23(4)	Issue a certificate of protection of pension benefits where eligible non-councillor member fails to apply for one (pay reduction / restrictions occurring pre 1 April 2008)	Delegated powers have been given to the Pension Panel
31(2)*	Grant application from a post 31 March 1998 / pre 1 April 2008 leaver for early payment of benefits on or after age 55 and before age 65	No employees are permitted to receive early payment of benefits prior to age 60 except in compassionate cases, where the payment of such benefits would arise on a voluntary basis. Applications may be granted on a case by case
31(5)*	Waive on compassionate grounds the actuarial reduction applied to benefits paid early for a post 31	Will be considered on a case by case basis.

	March 1998 / pre 1 April 2008 leaver or councillor	
34(1)(b)	Decide in the absence from a post 31 March 1998 / pre 1 April 2008 leaver of an election from the member within 3 months of being able to elect, which benefit is to be paid where the member would be entitled to a pension or retirement grant under 2 or more regulations in respect of the same period of Scheme membership	Delegated powers have been given to the Pension Panel
71(7)(a)	Consent to a member's former employer assigning to the new employer rights under any SCAVC life assurance policy (pre 1 April 2008 non-councillor leavers)	No SCAVC payments are permitted.
88(2)	No right to return of contributions due to offence of a fraudulent character unless employer directs a total or partial refund is to be made (councillors and pre 1 April 2008 leavers)	Delegated powers have been given to the Pension Panel
92	Contribution Equivalent Premium (CEP) in excess of the Certified Amount (CA) recovered from a refund of contributions can be recovered from the Pension Fund (councillor or pre 1 April 2008 leaver)	Contribution Equivalent Premium (CEP) in excess of the Certified Amount (CA) recovered from a refund of contributions will be recovered from the Pension Fund
111(2) & (5)	Forfeiture of pension rights on issue of Secretary of State's certificate (councillors and pre 1 April 2008 leavers)	Delegated powers have been given to the Pension Panel
112(1)	Where forfeiture certificate is issued, direct interim payments out of Pension Fund until decision is taken to either apply the certificate or to pay benefits (pre 1 April	Delegated powers have been given to the Pension Panel

	2008 leavers)	
113(2)	Recovery from Fund of monetary obligation owed by former employee or, if less, the value of the member's benefits (other than transferred in pension rights) (pre 1 April 2008 leavers)	Delegated powers have been given to the Pension Panel
115(2) & (3)	Recovery from Fund of financial loss caused by employee, or amount of refund if less (pre 1 April 2008 leavers)	Delegated powers have been given to the Pension Panel

Discretions in relation to the Local Government Pension Scheme Regulations 1995 (the "1995 Pension Regulations")

There are some regulations within the former 1995 Pension Regulations that still apply scheme members who ceased active membership before 1 April 1998 Where discretions are also applicable in relation to active members in the LGPS2014 Regulations they should be applied as they are mirrored within the LGPS Regulations applicable from 1 April 2014.

Regulation	Description	Discretion application
D11(2)(c)	Grant application from a pre 1 April 1998 leaver for early payment of deferred benefits on or after age 50 on compassionate grounds	Delegated powers have been given to the Pension Panel
D10	Decide in the absence from a pre 1 April 1998 leaver of an election from the member within 3 months of being able to elect, which benefit is to be paid where the member would be entitled to a pension or retirement grant under 2 or more regulations in respect of the	Delegated powers have been given to the Pension Panel

	same period of Scheme membership	

SCHEME EMPLOYER CONFIRMATION

The Pension Committee (24 June 2014) delegated to the Group Director of Resources, the Director of Human Resources and Organisational Development, and the Council's Monitoring Officer, acting jointly, the setting of the discretion decisions and Policy Statement.

It is understood that the discretions contained within this statement of policy are applicable to all eligible members of the Scheme. The Scheme rules allow for a revised statement to be issued at least one month in advance of the date that any new policy takes effect. The revised statement must be sent to the administering authority and the employer must publish its statement as revised in a place that is accessible to all of its eligible scheme members.

The policies made above:

- Have regard to the extent to which the exercise of the discretions could lead to a serious loss of confidence in the public service;
- Will not be used for any ulterior motive;
- Will be exercised reasonably;
- Will only be used when there is a real and substantial future benefit to the employer for incurring the extra costs that may arise;
- Will be duly recorded when applied.

Agreed on behalf of the Scheme Employer by the Group Director of Resources, the Director of Human Resources and Organisational Development, and the Council's Monitoring Officer, acting jointly.

Scheme Employer's Name: The London Borough of Havering

Date: 29 July 2014

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1. Equality Impact Assessment Checklist

The Equality Impact Assessment (EIA) is a tool to ensure that your activity meets the needs of individuals and groups that use your service. It also helps the Council to meet its legal obligation under the Equality Act 2010 and the Public Sector Equality Duty.

Please complete the following checklist to determine whether or not you will need to complete an EIA. Please ensure you keep this section for your audit trail. If you have any questions, please contact the Corporate Policy and Diversity Team at diversity@havering.gov.uk

About your activity

1	**Title of activity**	Local Government Pension Scheme London Borough of Havering Employer Discretions Statement of Policy and discretion decisions
2	**Type of activity**	*Policy*
3	**Scope of activity**	As a result of the changes in the Local Government Pension Scheme Regulations (LGPS) 2013 and the Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014 (the latter published on 10th March 2014), Scheme employers participating in the LGPS in England and Wales had to formulate, publish and keep under review a Statement of Policy on certain discretions which they have the power to exercise in relation to members of the Career Average Revalued Earnings (CARE) Scheme. The Scheme employer was required to send a copy of its statement to the relevant administering authority before the 1st July 2014 and also had to publish its statement. Scheme employers were also required to (or where there was no requirement, were recommended to) formulate, publish and keep under review a Statement of Policy on certain other discretions they may exercise in relation to members of the LGPS arising from the 2013 Regulations, 2014 Transitional Regulations and prior Local Government Pension Scheme Regulations. At the Pension Committee of the 24 June 2014 the Committee delegated to the Group Director of Resources, the Director of Human Resources and Organisational Development, and the Council's Monitoring Officer, acting jointly, the setting of the discretion decisions and Policy Statement. Following the setting of the discretion decisions and Policy Statement, the final discretion

		decisions and Policy Statement would be brought back to Committee for information.
4a	**Is the activity new or changing?**	*Yes*
4b	**Is the activity likely to have an impact on individuals or groups?**	*No*
5	**If you answered yes:**	*Please complete the EIA on the next page.*
6	**If you answered no:**	The benefits payable from the London Borough of Havering Pension Fund are almost exclusively determined by the Department for Communities and Local Government (through the Local Government Pension Scheme Regulations) or in a small number of cases, by the scheme member's employer. DCLG has published an equality statement, assessing the equality impact of the Local Government Pension Scheme reforms (2014 Scheme) using the current, 2008 Scheme as a baseline. The equality statement considers the impacts, both positive and negative, of the reforms on groups with protected characteristics. Decision-makers are advised to refer to the above equality analysis for further information of the impact on people with protected characteristics.

Completed by:	*Paul Green and Karen Balam*
Date:	*01/09/2014*

Agenda Item 9

Havering
LONDON BOROUGH

PENSIONS COMMITTEE **23 September 2014**	**REPORT**

Subject Heading:	The Local Government Pension Scheme Charging Policy and Administrative Team work plan
CMT Lead	Andrew Blake-Herbert
Report Author and contact details:	Contact: Karen Balam Designation: Transactional Manager Telephone: (01708) 432271 E-mail Address: Karen.balam@oneSource.co.uk
Policy context:	Local Government Pension Scheme Regulations
Financial summary:	There is no material, direct financial implications for the Fund arising 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	[X]

SUMMARY

This report sets out the current work plan for the London Borough of Havering Administration Team. Future reports will be brought to the Committee to update on the progress of delivering the work plan.

RECOMMENDATIONS

1. The Committee is recommended to:

   - Note the Draft Charging Policy
   - Delegate to the Group Director of Resources the approval of the final Charging Policy following consultation with Scheme Employers.

2. The Committee is recommended to note:

   - The Administrative Team work plan for 2014-15.
   - That further progress update reports monitoring the Administrative Team work plan will be brought back to Committee

REPORT DETAIL

1. Charging Policy

The Pension Fund has developed a charging policy. The draft policy, at Appendix A, formally sets out the proposed Pension Fund policy relating to charges for specific areas of work carried out directly for scheme employers, together with other issues that may give rise to employer charges such as stain costs, poor performance and late receipt of contributions. This policy will improve Scheme Employer's knowledge and understanding of their obligations and liabilities in the Scheme and ensure a consistent approach to the monitoring of employer performance.

The Pension Fund Funding Strategy Statement does set out that costs are normally passed to the letting authority (transferor) and cessation costs are normally met by the scheme employer (transferee if an admission body). The draft Charging Policy sets out clearly for employers the extent of charges and the policy on where costs should be met from where relevant.

With the increase in the number of Scheme Employers, together with a significant increase in the information employers are required to retain and provide to the Pension Administration Team as a result of the Local Government Pension Scheme Regulations 2013 and the Transitional Regulations 2014, there is an increased requirement to control the risk of employers failing to meet the requirements. Setting out a comprehensive Charging Policy is currently the most appropriate way to minimise employer risk of failing to comply with the information requirements and ensure the fund is not placed at risk of increased costs in supporting the growth in employers.

Following the comments of the Pension Committee the draft Charging Policy will be circulated to Scheme Employers for comment in September 2014 and subject to the comments received will be published for implementation from 1 November 2014. Any comments received will be discussed with the Group Director of Resources before publication of the policy.

2. Administrative Team Work plan

Due to the implementation of the new Local Government Pension Scheme 2014, together with the impact and pending impact of the Public Service Pension Act 2013, there is a considerable pressure on existing resources within the Pension Team and management of Transactional Services. The delivery of the work plan will be completed within existing resources, subject to engaging the Fund actuaries to support with specialist advice and guidance. Delivering the work plan within existing resources will have an impact upon measured performance indicators in 2014/15.

A plan of work that is already started, due to be started and to be delivered by the end of March 2015 is set out in the table below. It is proposed that the work plan be brought back to Committee and monitored during the current year.

Activity	Due Deadline	Responsible Officer
Review, revise and embed every pension process in line with the new pension scheme regulations 2014.	31/03/2015	Pension Administration Team
Updating all the member and employer communications in line with the new scheme.	31/03/2015	Pension Administration Team
Implement workflow to monitor and manage the day to day activities of the Pension Administration Team.	31/12/2014	Led by 2 Senior Transactional Agents (Pension Administration Team)
Members Self Service Automatic data interface between One Oracle system and Altair (payroll information).	TBI	Pension Team Leader
Employers Contribution	31/12/2014	Transactional Manager

Guide.		
Officer and elected member training.	31/12/2015 (and on-going)	All
Pension Team review (Havering and Newham) – the Newham Pension Administration work is outsourced to the London Pension Fund Authority (LPFA) and the contract has recently been extended for 12 months to give the opportunity to review the delivery of Pension Administration for Havering and Newham as part of oneSource.	31/12/2014	Transactional Manager
TUPE manual - A comprehensive manual has been developed to aid compliance and reduce risk to the fund when scheme employers are outsourcing, and bringing new employers into the fund.	31/10/2014	Transactional Manager
Havering Admission Policy, to support the TUPE manual. *(A copy of the draft manual has been made available in the Members area)*	31/10/2014	Transactional Manager
Preparing for new Governance requirements. • New Pension Board (potentially with a joint approach agreed	 31/03/2015	 Transactional Manager

with the London Borough of Newham as part of oneSource). To be in place by 01/04/2015 • Data quality requirements • The Pension Regulator requirements	 TBI On-going	 HR, Payroll and Pensions Transactional Manager All
GMP reconciliation - pension scheme administrators must reconcile the membership and Guaranteed Minimum Pension (GMP) data held on scheme records against HM Revenue & Customs' (HMRC) records in advance of the ending of contracting-out in April 2016.	TBI	Pension Team Leader and HR, Payroll and Pensions Transactional Manager
Revision of Annual Benefit Statements from 2014/15 to incorporate CARE Scheme 2014.	30/06/2015	Transactional Manager and Pension Team Leader
Working with the Director of Human Resources to commission and deliver ill-health training for Pension Administration and Human Resources staff (Corporate and Schools) following the Parry v Bridgend case.	31/10/2014	Director of Human Resources and Transactional Manager

Set up protocols and monitoring arrangements for both the Administrative Authority and the London Borough of Havering utilisation of discretions policies.	31/10/2014	HR, Payroll and Pension Transactional Manager and Pension Team Leader
Havering Actuarial Services contract renewal from 01/04/2015.	31/03/2015	Transactional Manager

IMPLICATIONS AND RISKS

Financial implications and risks:

There are no financial implications arising directly from this report.

However, the establishment of a charging policy would ensure that the cost of additional administration are charged fairly as possible amongst employers and that resources allocated in the most appropriate manner.

Legal implications and risks:

There are no direct legal implications arising from this report but issues may arise as a result of the consultation on the Charging Policy which will then be considered.

Human Resources implications and risks:

There are no direct HR implications arising from this report.

Equalities implications and risks:

Charging Policy

There are no direct implications on any individual members of the Pension Fund. The proposed Policy impacts on employers within the fund to ensure that those employers who consume actuarial and legal services meet the cost of these services, rather than the fund meeting the overall costs for the few employers.

The benefits payable from the London Borough of Havering Pension Fund are almost exclusively determined by the Department for Communities and Local Government (through the Local Government Pension Scheme Regulations) or in a small number of cases, by the scheme member’s employer. The benefits package is rarely, if ever, within the control of the Fund to adjust. When there is discretion that can impact on individual members of the Pension Fund, consideration will be needed to ensure that any negative equality implications are identified and, when possible, mitigated.

Administrative Team Work Programme

In implementing the work programme, reasonable adjustments should be offered to disabled staff members to ensure communications and other related material are accessible.

The availability of ill-health training, as identified in the work plan, will provide greater clarity for staff members on the process of determining early pension rights for staff members who obtain a disability and are no longer able to work. This will help ensure that administrators follow the correct process as defined by national regulations.

Appendix A

Draft Charging Policy

The London Borough of Havering Pension Fund

Local Government Pension Scheme

Charging Policy

September 2014

V0.1

Document Control

[This should include document details, version history, approval history, and equality impact assessment record.]

Document details

Title	*Appendix A Havering Charging Policy Draft Aug 2014.doc*
Version number	*V0.1*
Status	*Draft*
Author	*Karen Balam*
Lead officer	*Karen Balam*
Approved by	*Havering Pension Fund, Pension Committee*
Review date	*September 2015*

Supersedes	*None*
Target audience	*The policy is applicable to all Scheme Employers in the London Borough of Havering Pension Fund*
Related to	*Havering Pension Fund Funding Strategy Statement*

Version history

Version	Status	Date	Dissemination/Change
V0.1	*1st draft*	*21/08/2014*	*Legal, HR, Finance, Equalities Unit, Policy and Research Group, Pension Committee*
V0.2	2nd draft	12/09/2014	Committee Section

Approval history

Version	Status	Date	Approved by
Add final version number e.g. V0.4	*Add status of policy e.g. Final*	*Add date*	*Add name of approving body e.g. Cabinet*

Equality Impact Assessment record

Date	Completed by	Review date
22/08/2014	**Karen Balam**	**September 2015**

Contents

1. Introduction

Purpose

In recent years there has been a significant increase in the amount of fees the Fund spends on legal and actuarial work, largely as a result of an increased number of employers joining, leaving and changing their status within the Fund and the subsequent effects of this.

These fees can be spread across all employers, proportionately to their size, although the activity tends to be the result of decisions made by a small number of employers. Alternatively, these fees can be charged directly to the relevant scheme employer directly.

This policy aims to set out that charges should be met by the relevant scheme employer directly rather than the escalating cost be met by all scheme employers on behalf of the few employers who are consuming the actuarial and legal services.

Pension Fund charges are set out within the Local Government Pension Scheme Regulations 2013 and The Pension Regulator (TPR).

Policy summary

A clear and concise guide to what charges may arise for Scheme Employers and which Scheme Employer will be responsible for which charges.

Scope

The policy covers all costs arising from the actuarial services provided to support Scheme Employers in delivering their legislative responsibilities.

Timescales

The policy is applicable on an on-going basis until updated or reviewed due to legislative, regulatory or audit requirement change.

Aims, objectives and outcomes

The aim of the policy is to deliver value for the members of the Havering Pension Fund, which will help to deliver customer satisfaction with the Council by helping to deliver spend within budget.

2. Policy

Background

In recent years there has been a significant increase in the amount of fees the Fund spends on legal and actuarial work, largely as a result of an increased number of employers joining, leaving and changing their status within the Fund and the subsequent effects of this.

These fees can be spread across all employers, proportionately to their size, although the activity tends to be the result of decisions made by a small number of employers. Alternatively, these fees can be charged to the relevant scheme employer directly.

A charging policy has been approved by the Havering Pension Fund Committee that sets out the charging policy to cover these specific costs in relation to the Local Government Pension Scheme (the Scheme), which is administered by the London Borough of Havering (the Administering Authority). Costs that currently apply, as set out in the Funding Strategy Statement, are also included.

This charging policy will be applied to all new instructions from (to be agreed subject to the Pension Committee and employer consultation).

Cost chargeable to the Fund

Bespoke Costs

Bespoke work directly related to a Scheme Employer will be recharged to the Scheme Employer on a case by case basis. Where such work is commissioned by a Scheme Employer a quotation will be provided in advance of any agreement to carry out the work. Bespoke work may be carried out if staffing resources are available to carry out the work required.

Standard Costs

Most costs of the Fund will continue to be charged by the Actuary proportioning them to all employers, based on size, as part of the Triennial Actuarial Valuation exercise. These are then picked up by employers through their employer contributions. We already consider these costs to be spread across by employers in a fair manner and therefore this method will remain unchanged.

Examples of costs included in this category:

- Governance costs
- Benefits administration

Payroll processing for pensioners

Actuarial fees associated with completing the triennial valuation

Investment management costs (where not netted off the fund values)

Audit Fees

Most other administrative work and officer's time

However, some costs are more specific and are incurred as a result of the decision and actions of a particular employer. It seems only fair that these should be paid by the employer who generates them, rather than being shared across all employers. An indication of the fees and charges will be provided on request, and Scheme Employers are encouraged to contact the Pension Administration team at the earliest opportunity before taking any action that would give rise to the situations that would give rise to charges, as set out below.

Cost chargeable to the employers

Terminology

The following sections illustrate the costs that are chargeable and who pays them. Before considering the types of charges to be made, it is worth just establishing some terminology.

Two descriptors crop up which warrant explanation:

Transferor - This is the employer, often known as the 'Letting Authority' from which the staff originated before joining the new employer

Transferee - This is the employer which the transferring staff are joining

Several different categories of employers are also mentioned in the policy:

Scheduled Body - All 1st and 2nd tier Local Authorities, and Academy Schools, which include Free Schools and University Technology Colleges.

Resolution Body - All Town and Parish Councils

Admission Body –

(a) a body which provides a public service in the United Kingdom which operates otherwise than for the purposes of gain and has sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the Scheme employer or otherwise);

(b) a body, to the funds of which a Scheme employer contributes;

(c) a body representative of— (i) any Scheme employers, or (ii) local authorities or officers of local authorities;

(d) a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of—

(i) the transfer of the service or assets by means of a contract or other arrangement,
(ii) a direction made under section 15 of the Local Government Act 1999(a) (Secretary of State's powers),

(iii) directions made under section 497A of the Education Act 1996(b);

(e) a body which provides a public service in the United Kingdom and is approved in writing by the Secretary of State for the purpose of admission to the Scheme.

The 'employer type' shown in the left hand column of the tables below is the type of employer which is joining, leaving or changing status, **not** the type of employer who is causing the change, for example, by outsourcing staff.

Costs associated with new employers joining the Fund

Employer Type	**Standard Actuarial Costs (Contribution rate, bond value report and sub-fund set-up report as relevant)**	**Standard Legal Fees (drafting and producing admission agreement and other legal queries)**
Scheduled and Resolution Body	The new employer is responsible for these costs, unless they are a new employer as a result of a TUPE from a current scheme employer, in which case, the transferor* pays. However, all new academies starting from September 2010 will pay their own fees	Not applicable in normal circumstances
Admission Bodies	Transferor	Transferor

- See 'Terminology' above
- Note that costs will increase with the length or complexity of the query or report, and also due to delays in providing data, incomplete data, incorrect data or recalculations arising from amendments.

Costs associated with changes to continuing employers

Employer Type	**Bond Value re-assessments (Actuarial Costs)**	**Bulk Transfers in and out of Havering Pension Fund (Actuarial Costs)**	**Bulk Transfers between two employers in Havering Pension Fund (Actuarial Costs)**	**Merger and Demergers within existing employers (Actuarial and Legal Costs)**

Scheduled Body and Resolution Body	Not Applicable	Transferor for transfers out of Havering Pension Fund, Transferee for transfers in	Transferor	Very unlikely in normal circumstances, please refer to Havering Pension Fund
Admission Bodies	Transferor – if transferor deems a bond assessment is necessary (subject to the Administering Authority Policy regarding bond revaluation)	Very unlikely in normal circumstances, please refer to Havering Pension Fund	Transferor	Very unlikely in normal circumstances, please refer to Havering Pension Fund

Costs associated with ceasing employers leaving the Fund

The Pension Fund will carry out a full cessation valuation for Scheme Employers leaving the Scheme to calculate the current surplus or deficit in relation to the Scheme Employer's employees. Costs associated with cessation will be recharged to the departing Scheme Employer as set out below.

Indicative reports to aid decision making by the Scheme Employer may also be provided and will be recharged to the Scheme Employer, as set out below.

Employer Type	**Cessation valuation (actuarial costs)**
Scheduled Body and Resolution Body	The scheduled body* or resolution body**
Admission Bodies	Transferee***

* It is unlikely this will happen as new staff in scheduled bodies have an automatic right of entry

** At present, this is unlikely to occur

*** It is normally the transferee but this may be subject to the Admission Agreement, bond, guarantor or indemnity

Note, contact the Pension Administration Team to request an estimate of costs. Also note, that costs will increase if there are delays in providing data, for incomplete data or incorrect data. Recalculations and amendments will also result in higher costs.

Additional tangible costs

Excessive costs in relation to new, ceasing or changing employers

Where administrative time by the Fund related to one of these situations exceeds what we deem "reasonable", these costs will also be recharged to the relevant employer in addition to the standard costs.

FRS17 Reports

The Fund has operated a charging policy prior to this more comprehensive one, at present this remains unchanged.

The FRS17/IAS19 reports are accounting reporting standards, the purpose of which is for employers to disclose/account for the total value of pension payments that have accumulated at an accounting year end. The disclosure is an employer's duty to publish and is not a cost for the Pension Fund to bear. Any officer time spent completing the data returns, to the fund's actuary, on behalf of the employers will be reimbursed. The rate is set at the start of the FRS17/IAS19 cycle and will be communicated to employers at that time and is in addition to the fees charged by the actuary.

Full details and estimated costs can be obtained by contacting Debbie Ford, telephone: 01708 432569.

Poor performance recharges

Where we consider that we have incurred additional costs (including officer's time) as a result of an employer's poor level of performance, regulation 70 of the Local Government Pension Scheme Regulations 2013 allows us to recover these costs. We have never used this power to date, although the details of where this regulation may be applied is set out below. You can also view the full Local Government Pension Regulations here.

Circumstances where costs might be recovered as the result of poor performance

The circumstances where costs may be recovered from employers:

1) Persistent and on-going failure to provide relevant information (as determined by the Employer Information provided to all new scheme employers) to the Havering Pension Fund, scheme member or other interested parties in accordance within

specified performance targets, either as a result of timeliness of delivery or quality of information.

2) Persistent and on-going failure to pass relevant information to a scheme member or potential members, either due to poor quality or not meeting the agreed timescales outlined in the performance targets.

3) Persistent and on-going failure to deduct and pay over correct employee and employer contributions or any other payments due to the Havering Pension Fund within the stated timescales.

4) Instances where the performance of the Scheme employer results in fines or additional costs being levied against the Havering Pension Fund by the Pension Regulator, Pensions Ombudsman or other regulatory body.

5) For a persistent failure to resolve an isolated case(s) satisfactorily.

Calculation of costs incurred

For a persistent failure to resolve an isolated case(s) satisfactorily the Fund will recharge the cost of officer time from the point in time at which we write a formal letter to the scheme employer until the case is resolved. The rate applicable will be dependent upon the level of officer(s) involved in resolving the case and the time spent on resolution.

For persistent and on-going failure to meet targets, following intervention to assist the employer concerned, the Fund will recharge the additional costs due to the employer's poor performance at the relevant officer(s) cost and the time spent on resolution from the point of time that a formal letter has been issued to the scheme employer until performance improves.

Where the performance of the scheme member results in fines or additional costs being levied against the Fund, the Fund will recharge the full costs it has incurred to the relevant employer(s).

Late payment of contributions

In December 2013 The Pensions Regulator (TPR) issued draft code of practice no. 14 concerning **'Governance and Administration of Public Service Pension Schemes'**. Whilst this code of practice is currently in draft it is intended that all TPR codes of practice as they relate to Public Service Pension Schemes (of which the LGPS is one), will come into force from 1 April 2015. Of course, with the exception of the new LGPS that came into force from 1 April 2014, new statutory legislation governing all other public service pension schemes will come into force from 1 April 2015 in accordance with the Public Service Pensions Act 2013.

With this in mind action needs to be taken now to ensure that the LGPS meets the requirements of TPR's codes of practice as soon as possible and so an Employer's Contribution Guide will be published by the Administrative Team of the Havering Pension Fund.

With regard to the collection and payment over of contributions it should be noted that TPR has a number of statutory objectives including:

- To protect the benefits of pension scheme members;
- To promote and improve understanding of the good administration of work-based pensions; and
- To maximise compliance with the duties and safeguards of the Pensions Act 2008.

The Pension Regulator's Draft Code of Practice No.14 "Governance and Administration of Public Service Pension Schemes" sets out the legal requirements for maintaining contributions, with regard to what constitutes late payment, the following applies:

'140. Employer contributions must be paid to the scheme on or before the 'due date' (the date on which contributions are due under the scheme). Where employer contributions are not paid on or before the date they are due under the scheme and the scheme manager has reasonable cause to believe that the failure is likely to be of material significance to the regulator in the exercise of any of its functions, the scheme manager must give a written report of the matter to the regulator as soon as reasonably practicable.
141. Where employee contributions are deducted from a member's pay, the amount deducted is to be paid to the managers of the scheme within 19 days beginning on the day after the deduction is made, or within 22 days if paid electronically (the 'prescribed period').
142. Where employee contributions are not paid within the prescribed period, if the scheme manager has reasonable cause to believe that the failure is likely to be of material significance to the regulator in the exercise of any of its functions, they must, except in prescribed circumstances, give written notice of the failure to the regulator and the member within a reasonable period after the end of the prescribed period.'

Noting the regulatory requirements to come in from 1 April 2015, together with the Local Government Pension Scheme Regulations 2013 (Reg. 71), the London Borough of Havering will issue Scheme Employers with a written notice of unsatisfactory performance and notify them that they may be charged interest where that performance does not improve. An employer who continues to fail to meet the statutory requirement to pay employer contributions, employee contributions and employee additional contributions over to the Pension Fund by the 19th day of the following month (22nd of the following month if paid electronically) will also be at risk of being reported to the Pensions Regulator who has the power to issue fines.

Interest payable under Reg. 71 must be calculated at one per cent above base rate on a day to day basis from the due date to the date of payment and compounded with three-monthly rests.

Pension Strain Costs

Redundancy

A pension strain cost may be incurred and will be payable by the Scheme Employer where a member retires early on the grounds of redundancy or business efficiency; or where the employer exercises their discretions in such a way as to give rise to pension strain costs. Employer discretions include:

- Awarding additional pension,
- Waived actuarial reductions,
- Allowing unreduced benefits for early retirement over the age of 55 where the member satisfies the rule of 85.

The above issues should all be covered in the Employer Discretion Policy, as required by the 2013 regulations.

Where an employer makes certain decisions which result in additional benefits being paid out to a member, this results in a strain on the Fund. The cost of providing these additional benefits are calculated and recharged in full to the employer who made the decision.

Ill-Health Retirements

A pension strain cost may also arise due to ill-health retirements. Each Scheme Employer is allocated an ill-health allowance at the triennial valuation, or at the time they become a new scheme employer. The costs of ill-health early retirements for each Scheme Employer are monitored and employers who exceed their allowance will be invoiced for the excess cost. Information on ill-health insurance is provided to all Scheme Employers but it is currently their decision whether they take out the insurance. Employers should be aware that the pension strain cost of a tier 1 ill-health retirement can be significant, in some cases in excess of over £100,000. Scheme Employers should carefully consider the level of their ill-health allowance, the cost of the insurance (which does reduce their employer rate), and the risk of a tier 1 ill-health occurring.

Pension strain costs are based on actuarial factors relating to a number of aspects such as the members age, sex and scheme membership.

Please note that where the Fund pays out the lump sum payment or first pension payment late because we have not received the forms in sufficient time for them to be processed (i.e. one month and one year late respectively), we are required to pay an interest payment to the member (Reg. 81). This interest cost will also be passed to employers.

Applicability

The policy applies to all current and any future employers within the London Borough of Havering Pension Fund, which includes the Council as an employer, all the Academies within the Borough and Admission bodies carrying out work under contract where there has been a transfer of staff who have retained continued access to the Local Government Pension Scheme.

The consequences of non-compliance include being reported to The Pension Regulator and the possibility of fines.

The Scheme Employers will be consulted as part of the policy development process, and a Scheme Employer representative also sits as a Member on the Havering Pension Fund Committee. Revisions to the policy in the future will also be consulted upon with the Scheme Employers. There are currently 30 Scheme Employers of the Havering Pension Fund.

Ownership and authorisation

The Policy Lead is the Transactional Manager, Exchequer and Transactional Services, who will be responsible for review of the policy as and when there are regulatory, audit or legislative changes. The Pension Committee will approve the Policy and any future revisions, subject to delegation to the Group Director of Resources.

3. Related documents

The Local Government Pension Scheme 2013.

Draft code of practice no. 14 concerning ‘Governance and Administration of Public Service Pension Schemes’.

The Havering Pension Fund Funding Strategy Statement.

4. Dissemination and communication

The Policy has been disseminated to Legal Services, Human Resources, Finance, Equality and Diversities and the Policy and Research Unit for comment. The Policy will be disseminated to all Scheme Employers and the Havering Pension Committee for consultation and comment before finalisation.

The Policy will be published and available for access on the Havering Pension Fund website, in the Employer area, at http://www.yourpension.org.uk/handr/Home.aspx.

5. Implementation

The policy will be implemented by the Havering Pensions Administration Team, and clearly sets out the protocols to follow.

The Charging Policy does not have a mandatory training requirement or any other training needs.

6. Monitoring and review

The policy will be reviewed as and when legislative, audit and regulatory changes are published. The policy will be formally reviewed in November of each year and reported to the Pension Committee, as necessary, if revisions to the policy are required to be approved. The Transactional Manager, Exchequer and Transactional, will be responsible for reviewing the policy.

7. Further information

If you have any further questions or comments about this charging policy, please contact Tara Philpott our Transactional Manager, HR, Pensions and Payroll:

Telephone: 01708 432179

Email: Tara.philpott@oneSource.co.uk

If you enquiry is regarding the FRS17/IAS19 - Full details and estimated costs can be obtained by contacting Debbie Ford:

Telephone: 01708 432569

Email: Debbie.Ford@oneSource.co.uk

Equality Impact Assessment (EIA)

Document control

Title of activity:	*Havering Charging Policy*
Type of activity:	*Administrative Policy relating to the Pension Fund Administration*
Lead officer:	*Karen Balam*
Approved by:	*Transactional Manager, Exchequer and Transactional*
Date completed:	*September 2014*
Scheduled date for review:	*Annually, commencing from November 2015*

Did you seek advice from the Corporate Policy & Diversity team?	Yes
Does the EIA contain any confidential or exempt information that would prevent you publishing it on the Council's website?	No

1. Equality Impact Assessment Checklist

The Equality Impact Assessment (EIA) is a tool to ensure that your activity meets the needs of individuals and groups that use your service. It also helps the Council to meet its legal obligation under the Equality Act 2010 and the Public Sector Equality Duty.

Please complete the following checklist to determine whether or not you will need to complete an EIA. Please ensure you keep this section for your audit trail. If you have any questions, please contact the Corporate Policy and Diversity Team at diversity@havering.gov.uk

About your activity

1	**Title of activity**	*Havering Charging Policy*
2	**Type of activity**	*Policy, Administrative Policy relating to the Pension Fund Administration*
3	**Scope of activity**	*The activity impacted by the London Borough of Havering Pension Fund Charging Policy is the support for Scheme Employers of the fund, there are currently 30 Scheme Employers who make up the Havering Pension Fund made up of the London Borough of Havering as an employer, all the Academies within the Borough and Admission Bodies who carry out externalised contracted work on behalf of scheduled bodies (The Council and Academies).* *In recent years there has been a significant increase in the amount of fees the Fund spends on legal and actuarial work, largely as a result of an increased number of employers joining, leaving and changing their status within the Fund and the subsequent effects of this.* *These fees can be spread across all employers, proportionately to their size, although the activity tends to be the result of decisions made by a small number of employers, such as to become an Academy or to contract out services which leads to the creation of an Admission Body. Alternatively, these fees can be charged to the relevant scheme employer directly.* *A charging policy has been put forward to the Havering Pension Fund Committee that sets out the application of the policy as it will apply to Scheme Employer to cover*

		these specific costs in relation to the Local Government Pension Scheme (the Scheme), which is administered by the London Borough of Havering (the Administering Authority). Costs that currently apply, as set out in the Funding Strategy Statement, are also included. *This charging policy will be applied to all new instructions once consultation has been completed and the Group Director of Resources, under delegation of the Pension Committee, signs off the final Charging Policy. If any equality implications are identified in the consultation, they will need to be fully addressed.*
4a	**Is the activity new or changing?**	*Yes*
4b	**Is the activity likely to have an impact on individuals or groups?**	*No*
5	**If you answered yes:**	*See below*
6	**If you answered no:**	*This policy is determined by the Department for Communities and Local Government through the Local Government Pension Scheme Regulations 2013 and the Pension Regulator. It sets out charging policy for relevant scheme employers and there is minimal scope for the Council determining the policy.* *DCLG have published an equality statement regarding the Local Government Pension Scheme.* *If any equality implications are raised in the review of the policy in September 2015, a full Equality Impact Assessment will need to be undertaken to mitigate any further inequalities.*

Completed by:	*Karen Balam, Transactional Manager, Exchequer and Transactional*
Date:	*26 August 2014*

Havering
LONDON BOROUGH

PENSIONS COMMITTEE **23 September 2014**	**REPORT**

Subject Heading:	Local Government Pension Scheme Regulations Administering Authority's Policies 2014
Report Author and contact details:	Contact: Karen Balam Designation: Transactional Manager Telephone: (01708) 432271 E-mail Address: Karen.balam@oneSource.co.uk
Policy context:	The Local Government Pension Scheme Regulations
Financial summary:	There may be some avoidance of costs, savings or additional costs arising from the application of the discretions but until they arise they are not quantifiable

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	[]
High customer satisfaction and a stable council tax	[X]

SUMMARY

The Local Government Pension Scheme (LGPS) regulations give some responsibilities and discretions to the London Borough of Havering as the administering authority of the Havering Pension Fund. Some of these discretions were last reviewed in March 2010 and have now been updated following the regulations introduced with the LGPS 2014 scheme. A complete review of all the required Administrative Authority discretion decisions and policies has also been undertaken with support for the Fund Actuaries. This paper sets out the updated discretionary requirements for approval.

RECOMMENDATIONS

It is recommended that the Pensions Committee:

1 Approve the revised and reviewed Administering Authority's Statement of Policies following the introduction of the Local Government Pension Scheme 2014 (attached at Appendix 1)
2 Approve the delegations contained with the Administering Authority's Policy document and discretionary decisions.
3 Note that any major discretionary decisions made by the delegated persons will be reported to the Committee for information on a regular basis.
4 Note that the discretions will be brought to Committee for review following the next triennial valuation, or earlier dependent upon further regulatory changes.
5 Approve the delegation of revisions to the discretions between the three yearly review to the Pension Panel where there are regulatory or legislative changes.

REPORT DETAIL

1. Introduction

1.1. The regulatory requirements of the Local Government Pension Scheme (LGPS) are set out in the LGPS and associated regulations.

1.2. The LGPS Regulations 2013 were made on 12 September 2013 and laid before Parliament on 19 September 2013. These regulations came into force on 1 April 2014 and are deemed to have been made under the Public Service Pensions Act 2013.

1.3. The Transitional Regulations 2014 set out how scheme members transferred from the 2008 scheme to the 2014 scheme, along with details of how any proposed protections of rights and entitlements worked.

1.4. Due to the Local Government Elections 2014, the lateness of the publication of the Transitional Regulations 2014 (10th March 2014), awaiting the new scheme detailed guidance from the Government and the Government Actuary, and developing the employer discretion policies for the London Borough of Havering it was not possible to bring a report to Committee regarding the Administrative Authority's discretions until September 2014.

1.5. The Regulations require the administering authority, and the employers, to make decisions in relation to the exercise of their discretionary powers. Not all decisions need to be published, but it is the intention to report back at quarterly frequency to the Committee on the exercise of LGPS discretions.

1.6. The last review of an Administrative Authority discretionary policy was brought to Committee on the 16 March 2010 and related to the abatement of pension where a scheme member in receipt of a pension from the Council's Fund entered local government employment and were again eligible to join the scheme (then then Regulation 109). The abatement policy will be discussed further in the paper below.

2. Review of Discretions

2.1. The new scheme has been operational from 1 April 2014 and there is a regulatory requirement under the LGPS 2013 (Regulation 60) and Transitional Regulations 2014 (Schedule 2, Paragraph 2) to agree the new and revised discretion decisions and a Policy Statement before the 1st July 2014. It is also understood that where the 1st July was not achievable the Pension Regulator would only seek assurance that the employer or Administrative Authority were working towards completing the review of the Policy Statement and discretions.

2.2. An in-depth review of the of the discretion decision requirements in following regulations has been carried out:

- Local Government Pension Scheme Regulations 2013;
- The Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014 (The Transitional Regulations);
- The Local Government Pension Scheme (Administration) Regulations 2008 (The Administration Regulations);
- The Local Government Pension Scheme (Benefits Membership and Contributions) Regulations 2007 (The Benefits Regulations);
- The Local Government Pension Scheme (Transitional Provisions) Regulations 2008;
- The Local Government Pension Scheme Regulations 1997;
- The Local Government Pension Scheme Regulations 1995.

2.3. Discretion is taken to include where the Administering Authority is required to carry out a task but an element of choice is seen to exist as to how the task is completed.

2.4. A number of the discretions are subject to the formulation and publication of a written policy, but there are many more where there is no requirement for a written policy but where there may be an element of choice. The proposed discretion statement includes those discretions which require a written policy and those were there may be an element of choice. The proposed policy statement is attached at Appendix 1.

2.5. It should be noted that not all discretions need to be published; however, it is the intention, for reasons of transparency, to publish the decisions taken in relation to all the available discretions. If the discretion decisions and policies as set out at Appendix 1 are approved, the discretions will be published on the

Havering Pension Fund's website and will be circulated to Employer's participating in the Fund.

3. Key Discretions

3.1. The following discretion areas are brought to your attention, abatement, where the participating employer has become defunct, and Additional Pension Contributions,

3.2. Abatement

3.2.1. There is a regulatory change to a previously written discretion relating to the policy to abate (reduce) pensions following re-employment, this is now Regulation 3(13), The Transitional Regulations and was previously Regulation 109 of the Local Government Pension Scheme Regulations 1997 and regulation 70(1) of the 2008 Administration Regulations.

3.2.2. Previously the Council Policy was to abate the retirement pension when a scheme member who was in receipt of a pension from the Council's Fund entered a local government employment where they were eligible to join the scheme.

3.2.3. Abatement of pensions upon reemployment has been removed from the 2013 Regulations in respect of membership accrued from 1 April 2014.

3.2.4. The abatement policy is still applicable to members (and Councillors if relevant) who left the Scheme before 1 April 2014. Furthermore, the 2014 Transitional Regulations still require a policy on the abatement of the pre 1 April 2014 element of a pension in payment following re-employment.

3.2.5. Abatement could be seen as a protection mechanism for the fund in order to prevent an abuse of early retirement policies (efficiency of service redundancy) in circumstances where those individuals might be re-employed soon afterwards, performing similar roles and responsibilities within the organisation. However, many such redundancies may have been to address real budgetary restraints, but that drops in service levels then required the employers to recruit former staff to realise service improvements and use experience. Abatement is also seen as a disincentive for suitable skilled individuals returning to local government employment, denying employers access to the widest pool of available skilled human resources. Furthermore, with the introduction of flexible retirement into the LGPS, where abatement does not apply, it can also be argued that someone who would be subject to abatement (because they retired outright) is being disadvantaged compared to someone who was able to retire flexibly. Lastly, pension benefits paid under the new LGPS 2014 Regulations are not subject to abatement.

3.2.6. It is recommended, therefore, subject to meeting the requirement to consult with the other scheme employers participating in the Havering Fund, that the policy be amended to:

From 1 April 2014 the revised policy is to not abate or reduce the pensions of former members who become re-employed with regard to any period of membership before that date. Abatement of pension payable should continue in respect of any pensioner member who gained further employment covered by the LGPS before 1 April 2014.

3.3. Participating Scheme Employer has become Defunct

3.3.1. The regulations require an administering authority to exercise its discretion for some of the employing authority discretions where the participating employer has become defunct. These discretions, in general, deal with the early release of pension benefits and therefore each case should be considered on its individual merits; however, where this would result in a cost for early release, a business case would have to be approved justifying that cost. However, where there is a cost, this cost will have to be spread across all employers.

3.4. Additional Pension Contributions

3.4.1. Additional Pension Contributions (APC) or Shared Cost Additional Pension Contributions (SCAPC) are used in the new regulations to cover a number of situations where a member, and/or the employer will make payments to cover a shortfall in contributions. These shortfalls can arise from a variety of situations such as maternity leave, paternity leave, adoption leave, unpaid leave and reserve forces leave.

3.4.2. Regulation 16(1) gives the Administering Authority the discretion to refuse to request to pay an APC over a period of time where it is impractical to do so. The discretion decision recommends that this decision is delegated to officers, who will be able to assess any such requests.

3.4.3. APCs will also replace the previous options, known as Added Years and Additional Regular Contributions, allowing members to buy additional membership or pension respectively.

3.4.4. Under the previous regulations where a member has asked to purchase additional membership or pension any application has been subject to receipt of a medical report, confirming the members is in good health. This is because once a contract has started if the member then has to retire on grounds of ill-health, or the member dies, the contract is deemed to be fully paid up. It is therefore recommended that Committee approve the need for a GPs declaration that the member is in reasonable good health before any such contract is agreed. However, if payment was due to be made in one lump sum no GP declaration would be required since the contract would not be valid unless the payment had been received by the Fund.

3.5. Regulation 17(12) introduces a new discretion for the Administering Authority to determine where Additional Voluntary Contributions (AVC) monies should be paid on the death of a member. This is further extending the current provision where the Administering Authority is required to decide to whom a death grant is paid. In order to make timely decisions and payment to beneficiaries it is recommended that the new provision is delegated to officers unless it is a contentious case, which is then referred to the Pension Panel.

3.6. General Issues

3.6.1. Whilst the list of discretions sets out the general position, the Council must consider every application on its merits. Where there are extraordinary or justifiable circumstances, a departure from the general discretion approach listed may be appropriate.

3.6.2. In reviewing the discretions and making recommendations for the application of the discretions by the Administering Authority, the Fund Actuaries have ensured that each discretion is exercised in a manner that does not ‘fetter’ the discretion, and ensures decisions taken would review the individual circumstances of each particular case as necessary.

3.7. The recommendations also ensure that the discretions are carried out:

- In a fair and reasonable manner;
- Without knee jerk reactions;
- With consistency;
- With flexibility for any peculiar circumstances;
- With potential for review to allow consideration of changes.

3.8. The discretions will be reviewed every three years in line with the triennial valuation, to coincide and take account of the results of the valuation. Where there are regulatory and legislative changes that impact on discretions, a review would be carried out on those between valuations under delegation to the Pension Panel.

IMPLICATIONS AND RISKS

Financial implications and risks:

The majority of pension benefits payable are set in legalisation and calculated on a prescribed formulae but it is not possible to know if the discretions determined on a case by case basis will produce savings or additional costs.

Any financial risk to the fund should be identified and managed. As mentioned in Paragraph 1.5 it is intended to produce a quarterly report to the committee which lists the decisions taken in relation to all the available discretions. It would be useful to include the costs associated with authorising those discretions so that any future review can consider any cost implications.

Legal implications and risks:

Under the LGPS Regulations, the Council, as Administering Authority is required to formulate and keep under review the policies that apply in respect of exercising the discretions referred to in this report. The Council must publish written statements of the policies and if the Council decides to make any amendments, a statement of the amended policy must be published within one month of the determination.

The ambit of the areas of discretion is relatively limited, the major elements of the LGPS being fixed by legislation. In determining the policy on individual discretions a key element will be the possible impact on the pension fund from any particular discretion.

The setting of a policy on discretions creates the starting point or ‘standard’ response to a decision on the exercise of a discretion, but on each occasion there is the possibility that the particular circumstances of the case will justify a departure from the policy. However in practice it will probably be comparatively rare that there is evidence that justifies a departure from the policy.

Human Resources implications and risks:

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

Equalities implications and risks:

The report provides information on the changes on Pensions Regulations with effect from 1st April 2014 and asks for Pensions Committee approval for the delegation of decision making of the above listed pension discretions. There is no direct impact on the pension or pension entitlement for individuals or groups with protected characteristics arising from this report.

However, in drafting any policy, whether it be an "each case on its merits" policy, one that applies a standard approach, or even one that utilises either approach depending on the circumstances, Employers will need to have due regard to the Employment Equality (Age) Regulations 2006 and the Public Sector Equality Duty, as set out in the Equality Act 2010.

The policy should be informed by an equality impact assessment to understand the impact on affected staff groups with protected characteristics. If any age-related criteria or criteria that could be directly or indirectly age discriminatory are applied, the Employer must be able to demonstrate that their decision is based on objective justification and that it is a 'proportionate' means of achieving a 'legitimate' aim.

The benefits payable from the London Borough of Havering Pension Fund are almost exclusively determined by the Department for Communities and Local Government (through the Local Government Pension Scheme Regulations) or in a small number of cases, by the scheme member’s employer. The benefits package is rarely, if ever, within the control of the Fund to adjust. All eligible employees working for employers in the pension scheme are automatically admitted as a member of the Scheme unless they choose to opt-out. Each employer is responsible for informing the London

Borough of Havering of new eligible employees joining the Scheme and those who later decide to leave.

DCLG has published an equality statement, assessing the equality impact of the Local Government Pension Scheme reforms (2014 Scheme) using the current, 2008 Scheme as a baseline. The equality statement considers the impacts, both positive and negative, of the reforms on groups with protected characteristics. Decision-makers are advised to refer to the above equality analysis for further information of the impact on people with protected characteristics.

BACKGROUND PAPERS

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

Previous reports to the Pensions Committee regarding the changes to the Local Government Pension Scheme can be viewed on the Council's website (http://www.havering.gov.uk/Pages/Category/Council-and-democracy.aspx).

Hymans Robertson LLP detailed review 'Administering Authority Discretions in the Local Government Pension Scheme Regulations'

Administering Authority Statement of Policy Discretions

Local Government Pension Scheme Regulations 2013

Discretions formally agreed by the Pensions Committee on behalf of the Administering Authority, any decisions made in relation to these discretions will apply to all scheme members in the London Borough of Havering Pension Fund (regardless of who their employer is)

Regulation	Description	Discretion application
4(2)(b) 5(5)	Whether to agree to an admission agreement with a Care Trust, NHS Scheme employing authority or care Quality Commission. Whether to agree to an admission agreement with a body applying to be an admission body.	An admissions policy is drafted to ensure that any financial risk to the Fund and to the other employers in the Fund is identified, minimised and managed. The drafted policy to interact with the Funding Strategy Statement to give it a statutory backing as well as further clarity. Any body seeking admission to the London Borough of Havering Pension Fund under these regulations should demonstrate, to the Administering Authority's satisfaction, compliance with the authority's current prescribed admission criteria and the requirements of the Regulations; and the body seeking admission should enter into an Admission Agreement in such form as the Administering Authority may from time to time require.
Schedule 2 Part 3, Paragraph 9(d)	Whether to terminate a transferee admission agreement in the event of - insolvency, winding up or liquidation of the body; - breach by that body of its obligations under the admission agreement; - failure by that body to pay over sums due to the Fund	Officers monitor the covenant of the admission bodies in the fund and that delegated authority is given to the Transactional Manager, in consultation with the Council's Legal department, and the Chair of the Pension Committee to take action they feel is appropriate that will lead to the termination of an

	within a reasonable period of being requested to do so.	admission agreement.
Regulation	Description	Discretion application
Schedule 2 Part 3, Paragraph 12(a)	Admission agreements definition of "employed in connection with".	That where the London Borough of Havering a Administering Authority enters into an admission agreement with an admission body then the expression "employed in connection with" shall normally mean that a member spends on average in a scheme year at least 50% of his/her time working on the services connected to the contract.
16(1)	Whether to turn down a request to pay an APC/SCAPC over a period of time where it would be impractical to allow such a request (e.g. where the sum being paid is very small and could be paid as a single payment).	Delegated authority is given to the Team Leader Pensions Administration to make a decision on a case by case basis to determine in any particular case that it would not be practical to allow the additional pension contributions to be paid by regular contributions.
16(10)	Whether to require a satisfactory medical before agreeing to an application to pay an APC / SCAPC.	All scheme members wishing to pay regular monthly additional pension contributions should be required to complete a declaration, countersigned by their General Practitioner, in the format laid down by the Administering Authority that they are in reasonably good health, at the members own expense. That declaration should confirm the member is in reasonable good health prior to being permitted to commence payment of additional pension contributions. However, if payment was due to be made in one lump sum no General Practitioner declaration would be required since the contract would not be valid unless the payment had been received by the Fund.

Regulation	Description	Discretion application
17(12)40(2), 43(2) and 46(2) 17(5) to (8) of the Transitional Provisions and Savings Regulations)	Decide to whom any AVC/SCAVC monies (including life assurance monies) are to be paid on death of the member. Decide to whom death grant paid.	The decision as to the beneficiary is made on a case by case basis after referral by the Team Leader Pensions Administration to the Transactional Manager for agreement upon collection of all the relevant facts. Where cases are contentious, upon collection of all the relevant facts the decision as to the beneficiary is made on a case by case basis by the Pension Panel. The London Borough of Havering reserves the right to request sight of the Grant of Probate or Letters of Administration.
22(3)(c)	Pension account may be kept in such form as is considered appropriate.	The use of the Altair solution, or such Pension Administration computer software deemed fit for purpose by the Administering Authority, will ensure that the pension accounts will be able to identify the appropriate status of member and category of pension account. The Council will decide the form in which pension accounts are kept based upon any published information or best practice and in an efficient manor.
30(8) Written policy required	Whether to waive, in whole or in part, actuarial reduction on benefits which a member voluntarily draws before normal pension age or on flexible retirement in cases where the current employer or the former employer has ceased to be a Scheme Employer.	It is the general policy of the London Borough of Havering as an employer that it will determine each application on a case by case basis and that it will only agree to the waiving of an actuarial reduction in extreme circumstances where the application has been enforced on the member due to unforeseen circumstances or circumstances beyond their control. This policy will also be adopted by London Borough of Havering as an Administering Authority and delegate authority to the

		Pension Panel.

Regulation	Description	Discretion application
32(7)	Whether to extend the time limits within which a member must give notice of the wish to draw benefits before normal pension age or upon flexible retirement.	Each case is assessed on a case by case basis and delegated authority is given to the Team Leader Pensions Administration to agree to an extension of the time limits in each individual case depending on the circumstances.
34(1)	Decide whether to commute small pension.	Where the pension in payment is of such an amount that when commuted to a single lump sum and the conditions are within those laid down in the Finance Act to allow such a payment without any tax charge being imposed on the fund, the capital value of the pension will be paid where the member elects for it to. This payment discharges the authority from paying any future payments in respect of those pensions.
36(3)	Approve medical advisors used by employers (for ill health benefits).	Delegated powers be given to the HR, Payroll and Pensions Transactional Manager to determine whether an employer can use an alternative Occupational Health Adviser to the Council's and where granted, whether it is reasonable to use the Adviser selected. A medical practitioner must be registered with the General Medical Council and have the appropriate qualifications including occupational health medicine.

Regulation	Description	Discretion application
38(3) 38(6)	In the cases where the employer or former employer has ceased to be a Scheme Employer the Administering Authority shall: • Decide whether deferred beneficiary meets criteria of being permanently incapable of former job because of ill health and is unlikely to be capable of undertaking gainful employment before normal pension age or for at least three years, whichever is the sooner. • Decide whether a suspended ill health tier 3 member is unlikely to be capable of undertaking gainful employment before normal pension age because of ill health.	Where the Administering Authority is required to make a determination as to agreeing to the early payment of a deferred pension on the grounds of permanent ill health that all the facts of the case are presented to the Pensions Panel for a final determination.
49(1)(c)	Decide, in the absence of an election from the member, which benefit is to be paid where the member would be entitled to a benefit under 2 or more regulations in respect of the same period of Scheme membership.	The discretion is delegated to the Team Leader Pensions Administration on a case by case basis.
54(1)	Whether to set up a separate admission agreement fund.	No action will be taken in respect of this provision without prior discussions between officers and the fund actuary. Any proposal to set up a fund should then be submitted to the Fund's Pension Committee.

Regulation	Description	Discretion application
55	Governance policy must state whether the admin authority delegates their function of part of their function in relation to maintaining a pension fund to a committee, a sub-committee or an officer of the admin authority and, if they do so delegate, state - the frequency of any committee or sub-committee meetings; - the terms, structure and operational procedures appertaining to the delegation; - whether representatives of employing authorities or members are included and, if so, whether they have voting rights. The policy must also state - the extent to which a delegation, or the absence of a delegation, complies with Sec of State guidance and, to the extent it does not so comply, state the reasons for not complying, and - the terms, structure and operational procedures appertaining to the local Pensions Board.	No further action is necessary, but upon the publication of the regulations on the governance of the LGPS and the code of practice is finalised by the Pension Regulator the Governance Compliance Statement is revisited and revised as appropriate. A copy will be made available on our website www.yourpension.org.uk/handr.

Regulation	Description	Discretion application
58 Written policy required	Decide on funding strategy for inclusion in Funding Strategy Statement.	The Funding Strategy Statement is regularly revised and reviewed in consultation with the fund's actuarial advisers. A copy will be made available on our website www.yourpension.org.uk/handr.
59(1) & (2)	Whether to have a written pensions administration strategy and, if so, the matters it should include.	In view of the soon forthcoming governance requirements being imposed onto the LGPS a Pension Administration Strategy is prepared in accordance with the provisions of the LGPS2014 regulations. It should then be reviewed to ensure it remains up to date and meets the necessary regulatory requirements at least every three years. The London Borough of Havering Pension Fund will continually review the performance of the Administering Authority and scheme employers against the targets and standards set out in the strategy and address with scheme employers any issues that might be highlighted on a regular basis and relevant reports be provided to the Pensions Committee.
61 Written policy required	Communication policy must set out the policy on provision of information and publicity to, and communicating with, members, representatives of members, prospective members and Scheme employers; the format, frequency and method of communications; and the promotion of the Scheme to prospective members and their employers.	The London Borough of Havering Pension Fund will continually review its communication policy and in any event if there is any material change and relevant reports be provided to the Pensions Committee. The Communication Policy is made available on our website www.yourpension.org.uk/handr.

Regulation	Description	Discretion application
64(4)	Whether to obtain revision of employer's contribution rate if there are circumstances which make it likely a Scheme employer will become an 'exiting employer'.	Following the 2013 triennial valuation exercise and on the entry of any future bodies to the fund, powers are delegated to the Transactional Manager to take advice from the fund actuary as to how these admission bodies should be monitored. An annual review will take place each year for three years before the original contract cease date, or immediately when it becomes known that an early termination may occur and that the Transactional Manager be given delegated powers to request an amendment to the rates and adjustment certificate in accordance with the actuary's advice in the monitoring processes with a view to protecting the pension fund against any unpaid liabilities in respect of these bodies.
65	Decide whether to obtain a new rates and adjustments certificate if the Secretary of State amends the Benefits Regulations as part of the "cost sharing" under regulation 63.	No action will be taken in respect of this provision without prior discussions between officers and the fund actuary. Any proposal to review employers' contribution rates should then be submitted to the Fund's Pension Committee.
68(2)	Whether to require any strain on Fund costs to be paid "up front" by employing authority following payment of benefits under regulations 30(6) (flexible retirement), 30(7) (redundancy / business efficiency), or the waiver (in whole or in part) under regulation 30(8) of any actuarial reduction that would otherwise have been applied to benefits which a member voluntarily draws before normal pension age or to benefits drawn on flexible retirement.	The Administering Authority will continue to require all strain costs to be paid by employers on the fund costs in accordance with the Rates and Adjustment Certificate and guidance produced by the fund actuary. Payment should also continue to be made immediately in the form of lump sum, unless otherwise authorised by the Group Director of Resources.

Regulation	Description	Discretion application
69(1) 69(2)	Decide frequency of payments to be made over to Fund by employers and whether to make an admin charge. Decide form and frequency of information to accompany payments to the Fund.	This will be on a monthly basis, payment to be received by the 19th day of the month following deduction from pay (the 22nd day if paid by electronic communication) with the form and statement to accompany the payments in the format as specified, which may be revised following notification to employers.
70 71(1) And regulation 22(2) of the Transitional Provisions and Savings Regulations	Whether to issue employer with notice to recover additional costs incurred as a result of the employer's level of performance. The Administering Authority may charge interest on payments by employers which are overdue.	With a Charging Policy in place, and any future Pension Administration Strategy, the Administering Authority will make use of this provision to charge employers for persistently not meeting their liabilities and delegated authority is given to the Team Leader Pensions Administration to apply on a case by case basis. The Administering Authority reserves the regulatory prescribed right to require interest to be paid when payments are overdue by more than one month. Interest must be calculated on a day to day basis from the due date to the date of payment and compounded with three monthly rests.
76(4)	Decide procedure to be followed by admin authority when exercising its stage two IDRP functions and decide the manner in which those functions are to be exercised.	The Group Director of Resources continues with the delegated responsibility for the purpose of stage 2 applications and in doing so receives relevant advice and guidance from the Pensions Panel.

Regulation	Description	Discretion application
79(2)	Whether administering authority should appeal against employer decision (or lack of a decision).	Each case is determined on a case by case basis with delegated authority being given to the Pension Panel.
80(1)(b) And regulation 22(1) of the Transitional Provisions and Savings Regulations	Specify information to be supplied by employers to enable admin. authority to discharge its functions.	This will be on a case by case basis with delegated authority given to the Team Leader Pensions Administration who may confer with management in some cases but having regard to the regulatory requirement and best practice.
82(2)	Whether to pay death grant due to personal representatives or anyone appearing to be beneficially entitled to the estate without need for grant of probate / letters of administration where payment is less than amount specified in s6 of the Administration of Estates (Small Payments) Act 1965.	The decision as to the beneficiary is made on a case by case basis by reference by the Team Leader Pensions Administration to the Transactional Manager for agreement upon collection of all the relevant facts.
83	Whether, where a person (other than an eligible child) is incapable of managing their affairs, to pay the whole or part of that person's pension benefits to another person for their benefit.	Each case is determined on a case by case basis with final delegated authority given to the Pension Panel.
89(5)	Date to which benefits shown on annual benefit statement are calculated.	The London Borough of Havering will provide and calculate annual benefit statements on the year ending 31 March.
98(1)(b)	Agree to bulk transfer payment.	Each opportunity is determined on a case by case basis with delegated authority given to the Transactional Manager in consultation with the Fund actuary.

Regulation	Description	Discretion application
100(6)	Extend normal time limit for acceptance of a transfer value beyond 12 months from joining the LGPS.	Where discretion needs to be exercised it is determined on a case by case basis with delegated authority given to the Team Leader Pensions Administration.
100(7)	Allow transfer of pension rights into the Fund.	Generally transfer values are accepted but discretion is given to the Team Leader Pensions Administration in co-operation with the Transactional Manager and any other advisers they feel are appropriate, to consider and determine in exceptional cases whether a transfer value should be accepted that may pose a risk to the fund.
Schedule 1 And regulation 17(9) of the Transitional Provisions and Savings Regulations	Decide to treat child as being in continuous education or vocational training despite a break.	The Transactional Manager is given delegated powers to permit a break in the full-time education or training to be ignored so as to retain continuity and hence the ongoing payment of the child's pension on a case by case basis.
Schedule 1 And regulation 17(9)(b) of the Transitional Provisions and Savings Regulations	Decide evidence required to determine financial dependence of cohabiting partner on scheme member or financial interdependence of cohabiting partner and scheme member.	Where a cohabiting partner can become entitled upon the death of a member to pension benefits delegated authority is given to the Transactional Manager to decide on a case by case basis by taking account of the LGPS regulatory requirements, what evidence the cohabiting partner will be asked to provide by the way of appropriate documents and paperwork to prove either dependency or interdependency.

Administering Authority Discretions

Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014

Regulation	Description	Discretion application
3(6), 4(6)(c), 8(4), 10(2)(a),17(2)(b) and 10 of the Benefits Regulations	Where member to whom regulation10 of the Benefits Regulations applies (use of average of 3 years pay for final pay purposes) dies before making an election, whether to make that election on behalf of the deceased member.	Delegated authority is given to the Pension Team Senior Transactional Agents to determine the best final pay where the member has died and unable to make the appropriate election.
3(13)	Decide policy on abatement of pre 1 April 2014 element of pensions in payment following re-employment.	The revised policy from 1 April 2014 is to not abate or reduce the pensions of former members who become re-employed with regard to any period of membership before that date. Abatement of pension payable should continue in respect of any pensioner member who gained further employment covered by the LGPS before 1 April 2014.
10(9)	Decide, in the absence of an election from the member within 12 months of ceasing a concurrent employment, which ongoing employment benefits from the concurrent employment which has ceased should be aggregated (where there is more than one ongoing employment)	Where a decision is required delegated authority is given to the Team Leader Pensions Administration to which on-going employment the ceasing concurrent employment membership is aggregated and that the decision is communicated in writing to the scheme member within one month of the decision being made.

Regulation	Description	Discretion application
12(6)	Whether to use a certificate produced by an IRMP under the 2008 Scheme for the purposes of making an ill health determination under the 2014 Scheme.	Delegated authority is given to the Team Leader Pensions Administration to agree the use of a certificate produced under the 2008 scheme on a case by case basis.
15(1)(c)	Extend time period for capitalisation of added years contract.	A policy be made allowing the extension of this period beyond three months with powers being delegated to the Transactional Manager on a case by case basis to determine the actual period permitted.
15(1)(d)	Whether to charge member for provision of estimate of additional pension that would be provided by the Scheme in return for transfer of in house AVC/SCAVC funds (where AVC/SCAVC arrangement was entered into before 1/4/14).	There should be no charge to scheme members for these calculations for first time enquiries relating to each AVC fund but they are informed that subsequent enquiries may attract a charge with delegated powers given to the Team Leader Pensions Administration to do so on a case by case basis.
Schedule 2 para 2	Whether to "switch on" the 85 year rule for a member voluntarily drawing benefits on or after age 55 and before age 60 for a defunct employer.	The Administering Authority will not usually exercise discretion to fund additional costs applicable to the 85 Year Rule for 55 to 60 year olds. However in exceptional circumstances, to be considered on individual merits on a case by case basis. • If the member satisfies the 85 year rule, that part of the member's benefits accrued under the Earlier Scheme(s) which is calculated by reference to any period of membership before the 1 April 2014 is reduced by reference to the period between the date of the request and age 60.

		• If the member does not satisfy the 85 year rule, that part of the member's benefits accrued under the Earlier Scheme(s) which is calculated by reference to any period of membership before the 1 April 2014 is reduced by reference to the period between the date of the request and the date the member would satisfy the 85 year rule, or age 60 if later. Each case be dealt with on a case by case basis and although generally the 85 year rule will be applied as above, where there may be a circumstance for a different application agreement is sought from the Pension Panel.

Administering Authority Discretions

Discretions in relation to scheme members (excluding councillor members) who ceased active membership on or after 1 April 2008 and before 1 April 2014

Discretions in relation to the Local Government Pension Scheme (Benefits Membership and Contributions) Regulations 2007

Regulation	Description	Discretion application
10(2)	Election for another final pay period in respect of a deceased member.	Delegated authority is given to the Team Leader Pensions Administration to determine the best final pay where the member has died and unable to make the appropriate election.
23(2), 32(2) and 35(2)	Recipient of payment of death grant.	The decision as to the beneficiary is made on a case by case basis by reference by the Team Leader Pensions Administration to the Transactional Manager for agreement upon collection of all the relevant facts.
25	Determining dependency / financial interdependency for cohabiting partners.	Where a cohabiting partner can become entitled upon the death of a member to pension benefits delegated authority is given to the Transactional Manager to decide on a case by case basis by taking account of the LGPS regulatory requirements, what evidence the cohabiting partner will be asked to provide by the way of appropriate documents and paperwork to prove either dependency or interdependency.

Regulation	Description	Discretion application
27(5)	Payment of a child's pension to another person.	The number of occasions in which this circumstance would arise and the amounts payable will be very minimal and delegated authority is given to the Pension Panel to decide on a case by case basis.
30(2),30A(3) and 31(4)	Consenting to the immediate payment of benefits where the employer no longer exists.	Generally applications will not be agreed but may be granted on a case by case basis with all circumstances being taken account and to be determined by the Pensions Panel. Where the administering authority is required to make a determination as to agreeing to the early payment of a deferred pension on the grounds of permanent ill health that all the facts of the case are presented to the Pensions Panel to determine on a case by case basis.
30(5) and 30A(5)	To waive actuarial reduction where former employer no longer exists.	It is the general policy of the London Borough of Havering as an employer that it will determine each application on a case by case basis and that it will only agree to the waiving of an actuarial reduction in extreme circumstances where the application has been enforced on the member due to unforeseen circumstances or circumstances beyond their control. This policy will also be adopted by London Borough of Havering as an Administering Authority and delegate authority to the Pension Panel.

Regulation	Description	Discretion application
39	Commutation and small pensions.	Where the pension in payment is of such an amount that when commuted to a single lump sum and the conditions are within those laid down in the Finance Act to allow such a payment without any tax charge being imposed on the fund, the capital value of the pension will be paid where the member elects for it to. This payment discharges the authority from paying any future payments in respect of those pensions.
42(1)(c)	No double entitlement.	The discretion is delegated to the Team Leader Pensions Administration on a case by case basis.

Administering Authority Discretions

Discretions in relation to the Local Government Pension Scheme (Administration) Regulations 2008

Regulation	Description	Discretion application
28(2)	Recovery of costs of calculations for transferring AVCs into the fund.	There should be no charge to scheme members for these calculations for first time enquiries relating to each AVC fund but they are informed that subsequent enquiries may attract a charge with delegated powers given to the Team Leader Pensions Administration to do so on a case by case basis.
45(3)	Recovery of sums due from scheme members.	Delegated power is given to the Team Leader Pensions Administration to consider each case on its own merits and to seek to either recover from scheme benefits or invoice for the amount outstanding as appropriate.
52(2)	Payment due in respect of deceased persons where the amount due is less than £5,000.	The decision as to the beneficiary is made on a case by case basis by reference by the Team Leader Pensions Administration to the Transactional Manager for agreement upon collection of all the relevant facts.
52A	Payments for persons incapable of managing their affairs.	Each case is determined on a case by case basis with final delegated authority given to the Pension Panel.
56(2)	Approval of medical practitioner.	Delegated powers be given to the Transactional Manager to determine whether an employer can use an alternative Occupational Health Adviser to the Council's and where granted, whether it is reasonable to use the Adviser selected.

Regulation	Description	Discretion application
60(8)	Exercising stage 2 IDRP functions.	The Group Director of Resources continues with the delegated responsibility for the purpose of stage 2 applications and in doing so receives relevant advice and guidance from the Pensions Panel.
63(2)	Appealing against an employer decision.	Each case is determined on a case by case basis with delegated authority being given to the Pension Panel.
64(1)(b)	Exchange of information.	This will be on a case by case basis with delegated authority given to the Team Leader Pensions Administration who may confer with management in some cases but having regard to the regulatory requirements and best practice.

Administering Authority Discretions

Discretions in relation to the Local Government Pension Scheme Regulations 1997 (The 1997 Pension Regulations) (some may continue to apply in relation to historical cases or councillors)

There are a number of regulations within the former 1997 Pension Regulations that apply to councillors who elect to join the LGPS. Where discretions are applicable in relation to active councillor members they should be applied as they are mirrored within the LGPS Regulations applicable from 1 April 2014. It should be noted that elected Councillors at the London Borough of Havering did not elect to become members of the LGPS.

Regulation	Description	Discretion application
12(5)	Frequency of payment of councillors contributions.	As per LGPS2014 Regulations.
17(4),(7),(8) and 89(4)	"Reserve forces service leave" - Extension of period for scheme member to elect for membership following a period of reserve forces leave.	A policy is made allowing the extension of this period beyond twelve months with powers being delegated to the Pension Panel to determine the actual period permitted in each case according to the individual circumstances.
22(7)	Selecting appropriate final pay period.	As per Transitional Provisions and Savings Regulations.
23(9)	Election on behalf of deceased member.	As per Transitional Provisions and Savings Regulations.
38(1) and 155(4)	Decide to whom death grant should be paid.	As per LGPS2014 Regulations
47(1)	Apportionment of children's pensions.	Each case determined on a case by case basis by the Pensions Panel.
47(2)	Payment of child's pension to another person.	Each case determined on a case by case basis by the Pensions Panel.

Regulation	Description	Discretion application
49 and 156	Commutation and small pensions.	Where the pension in payment is of such an amount that when commuted to a single lump sum and the conditions are within those laid down in the Finance Act to allow such a payment without any tax charge being imposed on the fund, the capital value of the pension will be paid where the member elects for it to. This payment discharges the authority from paying any future payments in respect of those pensions.
50 and 157	Commute benefits due to exceptional ill health.	Each case determined on a case by case basis by the Pensions Panel.
60(5)	AVC election for councillors subject to a minimum payment.	Each case determined on a case by case basis by the Pensions Panel.
80(5)	Requirement to pay strain costs.	As per LGPS2014 Regulations.
81(1)	Frequency of employers' payments.	As per LGPS2014 Regulations.
81(5)	Form and frequency of information accompanying employers' payments.	As per LGPS2014 Regulations.
82(1)	Interest on overdue payments (councillor members)	Each case determined on a case by case basis by the Pensions Panel.
89(2)	Unpaid contributions collected as a debt from benefits.	Each case determined on a case by case basis by the Pensions.
91(6)	Timing of pension increase payments by employers.	Each case determined on a case by case basis by the Pensions Panel.

Regulation	Description	Discretion application
95	Payment of death grant less than £5,000.	As per LGPS2014 Regulations.
97(10)	Approval of medical advisers used by employers.	Each case determined on a case by case basis with delegated power be given to the HR, Payroll and Pensions Transactional Manager.
99	Deciding on IDRP procedure to follow.	Each case determined on a case by case basis by the Pensions Panel.
105(1)	Deciding on appeal against employer decision or lack of decision.	Each case determined on a case by case basis by the Pensions Panel.
106A(5)	Date to which benefits calculated for annual benefit statement.	As per LGPS2014 Regulations.
109 and 110(4)(b)	Abatement of councillor pensions on reemployment.	As per Transitional Provisions and Savings Regulations.
118	Deciding Retention of CEP where member transfers out.	CEP will be retained.
147	Discharging Pension Credit liability.	Each case determined on a case by case basis by the Pensions Panel.

Administering Authority Discretions

Discretions in relation to the Local Government Pension Scheme Regulations 1995 (the "1995 Pension Regulations")

There are some regulations within the former 1995 Pension Regulations that still apply scheme members who ceased active membership before 1 April 1998 Where discretions are also applicable in relation to active members in the LGPS2014 Regulations they should be applied as they are mirrored within the LGPS Regulations applicable from 1 April 2014.

Regulation	Description	Discretion application
E8	To whom death grant should be paid.	As per LGPS2014 Regulations.
F7(1)	Suspension of spouses' pensions during remarriage or cohabitation.	Spouses' benefits should not be suspended during any period of remarriage or cohabitation (as is the case with the current policy) and paid for life.
G11(1)	Apportionment of children's pensions.	Each case determined on a case by case basis by the Pensions Panel.
G11(2)	Payment of child's pension to another person.	Each case determined on a case by case basis by the Pensions Panel.

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE

23 September 2014

Subject Heading:	Local Government Pension Scheme Governance Reform 2014
Report Author and contact details:	Contact: Karen Balam Designation: Transactional Manager Telephone: (01708) 432271 E-mail Address: Karen.balam@oneSource.co.uk
Policy context:	The Local Government Pension Scheme Regulations and Public Services Pension Act 2013
Financial summary:	The reforms required under the 2013 Act will require resourcing from the Pension Fund in administering the changes, the consultation, feedback and training.

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	[]
High customer satisfaction and a stable council tax	[X]

SUMMARY

The Public Service Pensions Act 2013 ('The Act') outlined new governance structures for Pension Funds to take effect from 1 April 2015 and propose for a Scheme Manager to be advised by a Pensions Board which is to consist of a proportionate number of employer and member representatives.

The Act further provides for explicit regulatory oversight of pension schemes by the Pensions Regulator whose role will be to issue Codes of Practice on the governance standards of conduct and general practices expected of local government pension schemes (LGPS).

RECOMMENDATIONS

It is recommended that the Pensions Committee:

1. Note the report and that further information will be provided as it becomes available.
2. Agree the creation of a joint Governance Reform Working Party with officers from the London Borough of Newham, as a joint oneSource arrangement.
3. Agree the remit of the joint Working Party as set out in the report.
4. Delegate to the Transactional Manager to manage the Working Party going forward.

REPORT DETAIL

1. Background

1.1. Following the Hutton review in 2011 the Public Service Pensions Act 2013 brought about a significant number of changes to the Local Government Pension Scheme and how it was to be administered.

1.2. The changes to the Local Government Pension Scheme came into effect from 1 April 2014 and the Havering Pension Fund has successfully implemented the changes to the scheme.

1.3. The stated aim of the whole reform of public sector pensions is to raise the standard of management and administration of public service pension schemes and to achieve a more effective representation of employer and employee interests in that process.

1.4. The Government issued a consultation paper on 23 June 2014 with a response deadline of 15 August 2014. The Council did not submit a response to the consultation due to the timing of the Committee and the complex issues that would need to have been considered. The consultation paper and draft regulations are attached at Appendix 1.

2. The Responsible Authority

2.1. Is the person who makes regulations for the scheme, which, in the case of the LGPS, is the Secretary of State for the Department of Communities and Local Government (DCLG). The Secretary of State will be responsible for policy but requires the consent of H M Treasury before any regulations are made.

3. National Scheme Advisory Board

3.1. Regulation 110(1) provides that a scheme advisory board is established, which has a responsibility for providing advice to the Responsible Authority and the Pension Boards.

3.2. Regulation 113 sets out the funding and value for money of the Scheme Advisory Board. The Government proposes that the costs of the National Scheme Advisory Board are shared amongst Local Authority Pension Funds.

4. National Structure

4.1. At national level the Secretary of State (DCLG) is responsible for policy and making regulations. In this they will be advised by the Scheme Advisory Board. The remit and membership of this board have yet to be determined but is likely to follow that of the Shadow Advisory Board, set up in summer of 2013, which is currently chaired by the CEO of the National Association of Pension Funds (NAPF). It consists of:

- employer representatives;
- scheme member representatives (trade unions);
- advisors (Actuary, Local Authority Treasurer, Fund Practitioner and CIPFA's Pensions Panel);
- plus observers from DCLG, TPR and NAPF.

4.2. In particular, the Scheme Advisory Board will review affordability of the Scheme, "the cost cap", and advise the Secretary of State of changes to current contributions/benefits are required to maintain affordability.

4.3. The Scheme Advisory Board will also provide advice to Scheme Managers and the Pensions Board in relation to effective and efficient administration and management of LGPS.

5. The Scheme Manager

5.1. Section 4 of The Act requires that each pension scheme has a Scheme Manager who will be responsible for administering and managing the Scheme. It has been confirmed that the Scheme Manager will be the Administering Authority and will have the ultimate responsibility for the scheme.

5.2. The Scheme Manager is a function which can be delegated under S101 of the Local Government Act 1972. Further, The Act also provides that the two roles of administration and management can be undertaken as separate functions by two scheme managers.

5.3. The Scheme Manager will be assisted by the Pensions Board.

6. The Pension Regulator

6.1. In December 2013 the Pension Regulator (TPR) issued a draft Code of Practice for the governance and administration of public service pension schemes, including therefore LGPS. Codes of Practice are not statements of the law but in practice compliance with Codes are expected by external audit and failure to comply is likely to result in an adverse audit opinion.

6.2. The Code is directed at Scheme Managers and members of pension boards. It contains sections on managing risks, administration and resolving issues, but has a main section on governance and in particular the knowledge and understanding required by pension board members.

6.3. The Shadow Advisory Board has a Governance and Standards Sub-Committee which is currently working with TPR to develop the Code of Practice and subsequently an LGPS specific code. Once the final regulations and the final Code of Practice are published the Administering Authority will have a number of decisions to make in relation to future governance arrangements, including:

- Whether membership of the Pensions Committee and the Pensions Board can be combined or must be separate.
- How to ensure compliance with TPR Code of Practice in particular with requirements for knowledge and understanding of Board members.
- Whether to introduce the new arrangements in advance of the statutory date (assumed to be April 2015) in order to test the appropriateness of the arrangement for the Havering Fund.
- The extent to which these decisions will be informed by consultation with employers within the Fund and scheme members.

7. The Pensions Board

7.1. New Regulation 106 concerns the establishment of local pension boards.

7.2. Is a board with responsibility for assisting the Scheme Manager in securing compliance with scheme regulations, other legislation and the requirements of TPR. Each Scheme Manager is required to have a separate Pension Board.

7.3. The Pension Board is required to include equal numbers of employer and employee representatives. Currently within the Fund there are approaching 30 employers including Academies, a University Technical College, Further Education Colleges and Admission Bodies. There are over 16,900 members and consideration will need to be given as to how best to reflect this number and their variety in the formation of the Board.

7.4. The Act further requires that those appointed to the Board do not have a conflict of interest requiring each to declare any such conflicts imposing a responsibility on the Scheme Manager to ensure such conflicts do not interfere with the ordinary course of the Fund’s business.

7.5. Section 5(7) of The Act enables subsequent legislation to provide that the Scheme Manager, where this has been delegated to a Committee, to also be the Pensions Board.

8. Combined Pension Committees/Pension Boards

8.1. The Act introduces the role of TPR into public sector schemes. This is a new requirement and will need to be complied with. Currently, compliance with the law and good governance and effective administration are roles that in the Pensions Committee already has and exercises. The Havering Pension Fund also encompasses best practice in having employer and employee representation on the Committee and consults with the Employers as and when required.

8.2. In the Bill and in consultation the draft regulations provided for the Pensions Board to be either the same as the existing statutory committee or a separate body. The Act, though light on details, states regulations may still permit this but requires that board members should not have a conflict of interest, suggesting Scheme Manager and Pensions Board would have to be two separate entities.

8.3. The introduction of Pensions Boards is an added layer of bureaucracy that is an unintended consequence of national legislation for other public sector schemes. Although it has to be recognised that not all Pension Funds have the same governance structure or practices as the Local Government Pensions Scheme, or the London Borough of Havering. Therefore, one of the options that will need to be reviewed is whether the new Pension Board governance responsibilities can be built upon the existing governance structure. Further, in recognising that it would be an added layer to the existing governance structure it should be introduced in as simple a way as possible to maximise cost effectiveness without in any way undermining the role of Pensions Boards.

8.4. Pension Boards perform a role of overseeing and supporting the Pensions Committee to assist the administering authority to:

- Secure compliance with –
  - these Regulations;
  - any other legislation relating to the governance and administration of the Scheme; and
  - requirements imposed by the Pensions Regulator in relation to the Scheme.
- To ensure the effective and efficient governance and administration of the Scheme.

In that context the idea of combining Pensions Boards and Committees makes sense from a practical viewpoint since they perform a similar role. Having two separate bodies meeting separately will lead to duplication and added costs of running the scheme. Equally, the knowledge and skills required of each would be broadly similar and specialist – so combining the activities would again reduce duplication. However, there will be a need to consider how the support could operate effectively under a scenario where the bodies were combined.

8.5. However, it is understood that DCLG are concerned whether combining Pensions Boards and existing Committees could work legally; and have placed a high hurdle in that any such proposals would need Secretary of Sate approval and would need to meet any conditions laid down by the Secretary of State.

8.6. The consultation paper makes a fairly broad reference to difficulties of a combined body existing under two legal codes – The Local Government Act 1972 and the Pension Act 2013. In particular and by way of example the Pensions Act requires equal employer and employee representation whereas the Local Government Act would require appropriate political balance. It may be that the two pieces of legislation are simply not compatible.

8.7. Even if a combined Pensions Board/Pensions Committee is not worth pursuing due to the high hurdle or due to legal grounds, it would be sensible to seek options that could reduce the duplication for officers and recognising the overlap in skills and knowledge requirements when deciding how a Pensions Board might operate.

8.8. That could lead to a practical suggestion that even if the Board meets separately it could be timed to follow Pensions Committee meeting, although this may not be feasible administratively. Furthermore, it could also be helpful if members of the Board attended the Pensions Committee meeting to keep abreast of any knowledge and skills training and to understand the decisions reached. This would then reduce the time needed at the Pensions Board meeting where the Board can concentrate on their own agenda items. In order for them to attend all items including non public items it would be preferable, if legally possible, they we co-opted members of the Committee (without voting rights). In that way it could be possible to practically deliver a combined Board/Committee but with the Board remaining a separate body.

8.9. The suggested operation would then reduce the duplication and training needs of two separate bodies considering essentially the same things. Further it would help ensure that everyone had access to the same information/training to ensure common as possible standards of knowledge and skills. It does however raise a question over the independence of the Board. Careful consideration of the membership of the Board and how it obtains advice may help to ensure its independence. Furthermore as the legislation as currently drafted provides for combined roles it will be possible to see what conditions the Secretary of State attaches to such bodes to ensure that if the approach of a 'notional' combined body were adopted it could still comply with best practice.

8.10. On a broadly similar theme the consultation also proposes two options for setting up Pensions Boards either using Local Government law (i.e. as if it were a Committee) or as a separate body.

9. Joint Boards

9.1. The consultation suggests that joint Boards i.e. Boards that exist across two or more administering authorities could be considered where joint arrangements already exist between those authorities. Depending upon the outcome of the review of Havering and Newham pension administration arrangements, noted to the Committee in another paper on the agenda, this option could be explored further. If there is collaboration with neighbouring authorities Pensions Boards could potentially be merged as appropriate, which would deliver savings to the relevant pension funds over operating two Pension Boards. Such an option would have to be approved by the Secretary of State, and may not be acceptable or require significant evidence to support such a proposal.

10. Membership (Regulation 107)

10.1. The draft Local Government Pension Scheme (Amendment) Regulations at Regulation 107(2)) requires that there is equal employer and member (employee) representation on Pension Boards. It prevents Local Councillors from being appointed as employer or employee representatives (although they can be appointed in the 'other' category), and excludes Councillors who already sit on the Pension Committee. The regulations provide for a minimum number of four representatives. It also allows for other members of the Board to be appointed but they cannot exceed the number of employer/employee representatives. The following table sets out the possible minimum and maximum numbers.

	Option 1	Option 2	Option 3
Number of employer/member Representatives	4 (mimimum)	6	8
Other Nominees (maximum)	3	5	7
Total (maximum)	7	11	15

10.2. The regulations also set out that employer and member representatives must have 'relevant experience and capacity' (although this doesn't; seem to be required for other nominees).

11. Working Party

11.1. It is proposed that an officer working group, lead by the Transactional Manager, be set up and will review all the options that have emerged from the draft guidance. These are issues all LGPS funds will be considering and it is likely that in addition to regulations and guidance from TPR advice will be available from a number of sources, including LGA, the Fund's Actuary, CIPFA and other interested parties.

11.2. It is further proposed, that specialist advice be sought from the Havering Pension Fund actuary and that the working group agree whether the support of the actuary would be further required to develop and implement the options, which will be brought back to Committee.

11.3. The working group will meet at least once a month with the ability to call meetings in between should the position change or the draft regulations be approved in their current or amended form.

11.4. The remit of the working group will be to review the legislation, consider proposals for the future structure, consult with members and employers of the Fund, and report back to the Pension Committee. Ultimately, decisions about the organisation of a Pension Board and appointments to it may have to go to Governance and Full Council.

11.5. The remit of the working group will be applicable for the Newham Pension Fund due to the combined responsibility of officers as part of oneSource, subject to the appropriate actual cost split of the officer time between the two Pension Funds, outside of the oneSource cost and saving arrangements.

11.6. The proposed timeline is:

- September – Pension Committee paper setting out a briefing of the new governance issues.
- September – working group founded and first meeting, supported by the Havering Pension Fund actuary.
- September/October/November – working party operation and consultation with employers.
- December – update on the outcomes and a proposed structure presented to Committee for information and consultation
- January – Governance Committee report
- March – Full Council decision
- April – implement the new Governance structures.

11.7. The proposed timeline is tight and may be subject to change, which will be brought back to future Committee meetings.

IMPLICATIONS AND RISKS

Financial implications and risks:

The reform required under the 2013 Act will create financial pressure on the resources of the Fund in administering not only the changes, but the consultation, feedback, and training required by these changes together with any necessary amendment to the Fund's literature and websites.

The costs of this current work is to be met from the Fund, with any actual costs for actuarial advice and support together with officer time, met by both the Havering Fund and the Newham Fund as necessary if a joint approach to the working groups is agreed by both Pension Committees.

The cost of operating the Pension Board is not able to be identified currently but will be a part of the review and identified in future papers to Committee when the final proposals are agreed.

As mentioned in paragraph 3.2, the cost of the Scheme Advisory Board, which is currently not identifiable, will also be charged to the Pension Fund.

Legal implications and risks:

The changes outlined in the report are as a result of legislative reform and are not optional. Failure to adhere to the legislative requirements may result in judicial review and the possibility of Government intervention, together with fines from the Pension Regulator.

Human Resources implications and risks:

There are no direct Human Resource implications arising from this report. The work to deliver the options and implement the final approved structure will be absorbed within current roles.

Equalities implications and risks:

The report is setting out the proposed changes for information purposes at this stage, and no decision on the governance of the fund are contained in the report.

The consultation asks about the practicality of incorporating the Public Sector Equality Duty within the governance structure. Any decision that the Council has autonomy over which has implications for residents or staff will need to pay due regard to the Public Sector Equality Duty and this should be incorporated within the governance structure.

Any negative equality issues that are raised as part of the consultation process should be mitigated when possible.

The benefits payable from the London Borough of Havering Pension Fund are almost exclusively determined by the Department for Communities and Local Government (through the Local Government Pension Scheme Regulations) or in a small number of cases, by the scheme member's employer. The benefits package is rarely, if ever, within the control of the Fund to adjust. All eligible employees working for employers in the pension scheme are automatically admitted as a member of the Scheme unless they choose to opt-out. Each employer is responsible for informing the London Borough of Havering of new eligible employees joining the Scheme and those who later decide to leave.

DCLG has published an equality statement, assessing the equality impact of the Local Government Pension Scheme reforms (2014 Scheme) using the current, 2008 Scheme as a baseline. The equality statement considers the impacts, both positive and negative, of the reforms on groups with protected characteristics. Decision-makers are advised to refer to the above equality analysis for further information of the impact on people with protected characteristics.

BACKGROUND PAPERS

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

The Public Services Pension Bill 2013

Department for
Communities and
Local Government

The Local Government Pension Scheme (Amendment) Regulations 2014

Draft Regulations on Scheme Governance

Consultation

This document/publication is also available on our website at www.gov.uk

Any enquiries regarding this document/publication should be sent to us at:

Department for Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU
Telephone: 030 3444 0000

ISBN : 978-1-4098-4254-5

The Consultation Process and How to Respond

Scope of the consultation

Topic of this consultation:	The Local Government Pension Scheme (Amendment) Regulations 2014
Scope of this consultation:	This consultation seeks responses from interested parties on draft scheme governance regulations for the new Local Government Pension Scheme which came into force on 1 April 2014.
Geographical scope:	England and Wales.
Impact Assessment:	These Regulations have no impact on business or the voluntary sector.

Basic Information

To:	This consultation is aimed at all Local Government Pension Scheme interested parties.
Body responsible for the consultation:	The Secretary of State for Communities and Local Government is responsible for policy and the consultation exercise.
Duration:	8 weeks. As timing allows, account will be taken of representations made after the close of the consultation.
Compliance with the Code of Practice on Consultation:	This consultation complies with the Code and it will be for 8 weeks. The consultation is aimed at all parties with an interest in the Local Government Pension Scheme and in particular those listed on the Government's website: https://www.gov.uk/government/publications/local-government-pension-scheme-regulations-information-on-who-should-be-consulted

Background

Getting to this stage:	The Government commissioned Lord Hutton to chair the Independent Public Service Pensions Commission to review public service pensions and to make recommendations on how they can be made sustainable and affordable in the long term, and fair to both public sector workers and the taxpayer. Lord Hutton's final report was published on 10 March 2011. In that report he made clear that change is needed to "make public service pension schemes simpler and more transparent, fairer to those on low and

	moderate earnings". The recommendations made by Lord Hutton were accepted by the Government and were carried forward into the Public Service Pensions Act 2013. The Act included a requirement for DCLG as a responsible authority to make regulations establishing a national scheme advisory board and enabling each LGPS administering authority to establish local pension boards. In June 2013, the Department published an informal discussion paper inviting comment from a wide range of interested parties on how the requirements of the 2013 Act should be taken forward into the new 2014 Scheme. The outcome of that exercise and comments from the Shadow Scheme Advisory Board has been fully taken into account in the preparation of the draft regulations. These draft regulations carry forward these requirements into the 2014 Scheme

How to respond

1. You should respond to this consultation by **15 August 2014**.

2. You can respond by email to Sandra.layne@communities.gsi.gov.uk.
When responding, please ensure you have the words "LGPS Governance Regulations 2014" in the email subject line.

Alternately you can write to:

LGPS Governance Regulations 2014
Department for Communities and Local Government
Zone 5/F5 Eland House
Bressenden Place
LONDON SW1E 5DU

3. When responding, please state whether you are responding as an individual or representing the views of an organisation. If responding on behalf of an organisation, please give a summary of the people and organisations it represents and, where relevant, who else you have consulted in reaching your conclusions.

Additional copies

4. This consultation paper is available on the Department for Communities and Local Government website at: https://www.gov.uk/government/organisations/department-for-communities-and-local-government

Confidentiality and data protection

5. Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

6. If you want the information that you provide to be treated as confidential, please be aware that, under the Freedom of Information Act 2000, there is a statutory code of practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, in itself, be regarded as binding on the department.

7. DCLG will process your personal data in accordance with the Data Protection Act 1998 and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. Individual responses will not be acknowledged unless specifically requested.

Help with queries

8. Questions about the policy issues raised in the document can be sent to the address given at paragraph 2 above.

9. A copy of the consultation criteria from the Code of Practice on Consultation is at http://www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance. Are you satisfied that this consultation has followed these criteria? If not or you have any other observations about how we can improve the process please email: consultationcoordinator@communities.gsi.gov.uk

or write to:

DCLG Consultation Co-ordinator, Zone 8/J6, Eland House, Bressenden Place London SW1E 5DU.

Contents

Chapter 1

Introduction

1.1 This document commences a period of statutory consultation on the new governance arrangements for the 2014 Local Government Pension Scheme ("LGPS") which came into effect on 1 April 2014. Your comments are invited on the set of draft regulations at **Annex A**. and also on the separate policy issues included at Chapter 3 below.

1.2 **The closing date for responses is 15 August 2014**.

Background and context

1.3 This consultation on the Local Government Pension Scheme (Amendment) Regulations 2014 represents a key step in the process of reform that began with the commitment given in the Coalition Government's programme to review the efficiency, effectiveness and sustainability of public service pension schemes.

1.4 A key aim of the reform process is to raise the standard of management and administration of public service pension schemes and to achieve more effective representation of employer and employee interests in that process.

1.5 The Public Service Pensions Act 2013 included two main provisions to achieve this policy objective. Firstly, a requirement for responsible authorities such as DCLG to establish at national level a Scheme Advisory Board with responsibility to provide advice to the Department on the desirability of changes to the Scheme. And secondly, in cases where schemes like the Local Government Pension Scheme are subject to local administration, for scheme regulations to provide for the establishment of local pension boards to assist administering authorities with the effective and efficient management and administration of the Scheme.

Consultation responses

1.6 In view of the need to give administering authorities and other interested parties sufficient lead-in time to establish local pension boards, Ministers have agreed to a consultation period of 8 weeks.

1.7 To allow for the fullest response to proposed Scheme regulations, every attempt will be made to include any late submissions.

1.8 Your comments should therefore be sent by 15 August 2014 to LGPS Governance Regulations 2014, Department for Communities and Local Government, Zone 5/G6, Eland House, Bressenden Place, London SW1E 5DU. Electronic responses can be sent to Sandra.layne@communities.gsi.gov.uk.

Chapter 2

Proposals for consultation

2.1. The Regulations are being made under the powers conferred by the Public Service Pensions Act 2013. Under Section 3(5) of the 2013 Act, the Regulations require the consent of Treasury before being made.

Preliminary Provisions

2.2 **Regulation 1** covers the citation, commencement, interpretation and extent of the Regulations. The Regulations will apply to the Scheme in England and Wales and, for the most part, will come into operation on 1 October 2014 to allow sufficient time for the new Scheme Advisory Board and local pension boards to become operational on 1 April 2015.

2.3 **Regulation 2** amends the Principal 2013 Regulations in accordance with regulations 3 to 5.

2.4 **Regulation 3** deletes Regulation 53(4) from the Principal 2013 Regulations because that provision becomes obsolete in view of the amendments introduced by these Regulations.

2.5 **Regulation 4** amends Schedule 1 to the Principal 2013 Regulations to include definitions of "Local Government Pensions Scheme Advisory Board" and "local pension board".

2.6 **Regulation 5** inserts new regulations 105, 106,107, 108, 109, 110, 111, 112 and 113 into the Principal 2013 Regulations. These provisions are described in detail immediately below.

Main Provisions

2.7 **New Regulation 105** confers power on the Secretary of State to delegate functions under the Principal 2013 Regulations and administering authorities to delegate their functions. It also allows for any delegated function by an administering authority to be sub-delegated.

Local pension boards : establishment

2.8 **New Regulation 106** concerns the establishment of local pension boards.

2.9. **Regulation 106(1)** provides that each administering authority must establish a local pension board no later than 1 April 2015. This would not prevent a board being established before that date.

2.10 **Regulation 106(1)(a) and (b)** sets out the role of a local pension board as being to assist the administering authority in securing compliance with (i) the Principal 2013 Regulations, (ii) any other legislation, and (iii) requirements imposed by the Pensions Regulator in relation to the Scheme. The role is further extended by **Regulation 106(1)(b)** to assist the administering authority in ensuring the effective and efficient governance and administration of the Scheme. These provisions mirror those set out in section 5(2) and (3) of the Public Service Pensions Act 2013.

2.11**. Regulation 106(2)** carries forward into the Principal 2013 Regulations, section 5(7) of the Public Service Pensions Act 2013. This provides that where the scheme manager of a Scheme under section 1 of the Act is a committee of a local authority, the scheme regulations may provide for that committee also to be the board for the purposes of this section. This is discussed in more detail in Chapter 3.

To ensure that any proposal to combine the committee and local pension board into a single, dual-function body is appropriate and practicable, **Regulation 106(2)** requires such proposals to be approved by the Secretary of State. Where appropriate, the Department may seek advice from relevant interested parties, in particular, the Scheme Advisory Board and Pensions Regulator.

2.12 **Regulation 106(3)** provides that the Secretary of State may, in giving such approval, impose any such conditions that he thinks fit.

2.13 **Regulation 106(4)** enables the Secretary of State to withdraw any approval given under Regulation 106(2) if any of the conditions given under Regulation 106(3) are not met or, more generally, that there is evidence to suggest that the combined body is no longer working as intended.

2.14 **Regulation 106(5)** sets out the means by which an administering authority establishes its local pension board but the draft offers two different alternatives of the regulations as described later in Chapter 3 (Other connected policy issues). Consultees are specifically invited to indicate and comment on their preference.

2.15. **Regulation 106(6)** provides that the costs of local pension boards are to be regarded as administration costs charged to the fund.

Local pension boards : membership

2.16. **Regulation 107(1) –** requires each administering authority to determine the membership of the local pension board; the manner in which such members may be appointed and removed and the terms of their appointment.

2.17**. Regulation 107(2)** provides that in determining membership of their local pension board, an administering authority must include employer representatives and member representatives in equal numbers, the total of which cannot be less than four.

2.18**. Regulation 107(2(a)** prevents a councillor member of a local authority being included either as an employer or member representative, but this does not prevent an administering authority from appointing councillor members of a local authority (or any other person) to the local pension board over and above the required equal number of employer and member representatives.

2.19**. Regulation 107(2)(b)** requires an administering authority to be satisfied that employer and member representatives appointed to a local pension board have the relevant experience and the capacity to perform their respective roles. There is a risk that could act as an unhelpful barrier to people putting themselves up as pension board nominees but we believe that this pre-condition is necessary to ensure that appointees to the board have the background and capacity to undertake the duties and responsibilities required of pension board members. The Department will work closely with all relevant interested parties in preparing and publishing guidance on the experience and capacity required of local pension board nominees.

(It is important to note that Regulation 107(2)(b) and the pre-condition of "relevant experience and capacity" is not to be confused with the requirement for pension boards members to acquire "knowledge and understanding" under section 248A of the Pensions Act 2004 as introduced by paragraph 19 of Schedule 4 (Regulatory oversight) to the Public Service Pensions Act 2013.

2.20**. Regulation 107(3)** ensures that the number of employer and member representatives appointed to a local board must represent a majority of total members.

Local pension boards : conflict of interest

2.21. **Regulation 108(1)** carries forward section 5(4) of the Public Service Pensions Act 2013 and requires each administering authority to be satisfied that any person appointed to a local pension board does not have a conflict of interest as defined in section 5(5) of that Act.

2.22**. Regulation 108(2)** requires an administering authority to monitor conflict of interests over time.

2.23. **Regulations 108(3) and (4)** impose requirements on persons to provide relevant information to the administering authority on nomination as a member of a local pension board and, if appointed, during membership.

Local pension boards : guidance

2.24. **Regulation 109** requires an administering authority to have regard to guidance issued by the Secretary of State in relation to local pension boards. In formulating such guidance, the Department will work closely with all relevant interested parties, including the Scheme Advisory Board and the Pensions Regulator.

Scheme advisory board : establishment

2.25. **Regulation 110(1)** provides that a scheme advisory board is established.

2.26. **Regulation 110(2)** sets out the responsibility of the scheme advisory board to provide advice to the Secretary of State on the desirability of making changes to the Scheme in accordance with section 7(1) of the Public Service Pensions Act 2013. But note that we are not proposing to carry forward the provision in the Act that such advice is to be at the Secretary of State's request. We believe that the interaction between the Department and the scheme advisory board should be open and transparent and that scheme regulations should not prevent the scheme advisory board from initiating its own advice or recommendations to the Secretary of State.

2.27. **Regulation 110(3)** extends the scope of the scheme advisory board to include advice and assistance to administering authorities and local pension boards in relation to the effective and efficient administration and management of the Scheme and its pension funds.

2.28. **Regulation 110(4)** permits the scheme advisory board to establish its own procedures.

Scheme advisory board : membership

2.29. **Regulation 111(1)** sets out the membership requirements of the scheme advisory board. The Chair of the scheme advisory board is to be appointed by the Secretary of State and the Department will work closely with the Shadow scheme advisory board in formulating and organising the nomination and appointment process. Membership of the board must comprise at least 2 and no more than 12 persons appointed by the Chair with the approval of the Secretary of State.

2.30. **Regulation 111(2)** confers a duty on the Secretary of State to ensure that approval under Regulation 111(1)(b) is subject to consideration of how fair the Chair has been in nominating employer and scheme members to the board for approval.

2.31**. Regulation 111(3)** requires the constitution of the scheme advisory board to include details of the terms and conditions of members' appointments.

2.32. **Regulation 111(4)** permits persons who are not members of the scheme advisory board to be appointed as members of any sub-committee to the board.

2.33**. Regulation 111(5)** applies the same provision in Regulation 111(3) to members of any sub-committee to the board.

Scheme advisory board : conflict of interest

2.34**. Regulation 112** applies the provision in sections 7(4) and (5) of the Public Service Pensions Act regarding conflict of interest to nominees and members of the scheme advisory board.

Scheme advisory board : funding

2.35**. Regulation 113(1)** provides that the expenses of the scheme advisory board are to be treated as administration costs to the Scheme and recharged to administering authorities in such proportions as are determined by the board.

2.36**. Regulation 113(2)** ensures that safeguards are in place to ensure value for money. Before any monies can be levied on administering authorities by the scheme advisory board, the board's annual budget must first have been approved by the Secretary of State.

2.37**. Regulation 113(3)** requires an administering authority to pay the amount determined by the scheme advisory board under Regulation 113(2).

Chapter 3

Other connected policy issues

Combined Section 101 committee and local pension board (Regulation 106(2)).

3.1. Draft **Regulation 106(2**) enables a single, dual function body to carry out the functions of both a section 101 committee established by the administering authority to manage and administer the Scheme and those of a local pension board.

3.2. In practice, a combined body would be subject to two separate legal codes under both the Local Government Act 1972 and associated legislation, and the Public Service Pensions Act 2013. A combined body might also have difficulty in ensuring that all members had both knowledge and understanding that is currently expected of elected members and the experience and capacity required of local pension board members. There could also be difficult and different issues about conferring voting rights and compliance with local government law on the political composition of committees.

3.3. The Public Service Pensions Act 2013 does allow for this facility in scheme regulations but we are not compelled to introduce it. Comments are therefore invited on whether the Regulations should include such provision.

Establishment of local pension boards (Regulation 106(5)}

3.4. The draft regulations offer two alternatives to the way in which an administering authority could establish their local pension board.

3.5. The first version of **Regulation 106(5)** offers a simple solution by proposing that establishment of a local board should be undertaken as if it was a committee under section 101 of the Local Government Act 1972. This would automatically apply the section 101 regime to the way in which local boards are to be established. Although this option would provide administering authorities with a ready-made set of provisions to help them establish local pension boards, it is arguable that local pension boards should be established on a bespoke basis best suited to their own role and responsibilities.

3.6. The alternative version of **Regulation 106(5)** confers a wide discretion on administering authorities to establish the procedures applicable to a local pension board such as voting rights, the establishment of sub-committees, the formation of joint committees and payment of expenses. This list is not exhaustive, and could include some of the features of the section 101 regime, such as voting rights, political composition, etc. Although this option would represent more of a burden to administering authorities, it would allow greater flexibility and choice at local level in the way that local pension boards are established.

3.7. Consultees are therefore invited to state their preference for option 1, option 2, or any other proposal. Where option 2 is preferred, it would be helpful if the response could also set out those elements which should either be specifically excluded or included from the wide discretion afforded by the second version of Regulation 106(5).

Funding of the Scheme Advisory Board (Regulation 113)

3.8. It is accepted that funding the Scheme Advisory Board will be a complex and difficult matter. **Regulation 113** has been drafted on the basis of informal discussions with interested parties but we acknowledge that more work needs to be done to both ensure that the board is adequately funded to enable them to carry out their agreed work plans and that the cost of the board to each administering authority is fair and represents value for money.

3.9. Comments are therefore invited on what additional provision we need to make to Regulation 113 to achieve both objectives and regarding any other aspect of the scheme advisory board's funding.

Joint pension boards

3.10. As currently drafted, these Regulations require each administering authority to establish a local pension board. However, the extent to which administering authorities are either already sharing, or planning to share, their administration with other administrating authorities, suggests that provision ought to be made in these Regulations for a single pension board to serve more than the one administering authority.

3.11. On the other hand, it would run counter to the spirit of the primary legislation if a single board ended up serving a significant number of administering authorities. We believe therefore, that the default position must be one local pension board for each administering authority, but that exceptions where administration and management is mainly or wholly shared between two or more administering authorities should be catered for. This could be demonstrated by the management and administration being undertaken by a joint committee of the participating administering authorities.

3.12. Comments are invited on whether the Regulations need to provide for shared local pension boards and, if so, what test, if any, should be applied. For example, should provision be made for either the scheme advisory board or the Secretary of State to approve any proposal for a shared pension board?

Annual general meetings, Employer forums, etc

3.13. The staging of AGMs, employer forums, etc, is currently a recommendation in the Department's statutory guidance on governance compliance. There is evidence to suggest that a significant minority of administering authorities do neither and also that those that do, receive positive feedback from employers and scheme members alike.

3.14. Comments are invited on whether the Regulations should require administering authorities to facilitate a forum for both employers and employees on at least an annual basis.

Public Sector Equality Duty

3.15. The Equality Duty is a duty on all public bodies and others carrying out public functions to ensure that public bodies consider the needs of all individuals in their day to day work. It also encourages public bodies to ensure that their policies and services are appropriate and accessible to all and meet different people's needs.

3.16. This raises the question of whether these Regulations should extend the role of the scheme advisory board to have regard to the Equality Duty in making recommendations to the Secretary of State on the desirability of making scheme changes and extending the scrutiny/.compliance role of local pension boards to include the Equality Duty.

3.17. Comments are invited on the appropriateness and practicality of this proposal.

Knowledge and Understanding

3.18. These regulations would require members of local pension boards to have the knowledge and capacity to undertake that role. This contrasts with members of committees established by the administering authority to discharge its pension functions who, although recommended to have regard to the Knowledge and Skills Framework published by CIPFA, are under no regulatory requirement to do so. Whilst recognising that the knowledge and training needs of section 101 and local pension boards are not identical, it is open to question whether the same level of regulatory requirement ought to apply to both bodies.

3.19. Comments are invited on whether either in these Regulations or at some stage in the future, provision should be made in the Principal 2013 Regulations to require members of committees established by the administering authority to discharge its pension functions to comply with the Knowledge and Understanding Framework and other relevant training.

Annex A

STATUTORY INSTRUMENTS

2014 No. 0000

PUBLIC SERVICE PENSIONS, ENGLAND AND WALES

The Local Government Pension Scheme (Amendment) Regulations 2014

Made - - - -	*2014*
Laid before Parliament	*2014*
Coming into force - -	*2015*

These Regulations are made in exercise of the powers conferred by sections 1 and 3 of, and Schedule 3 to, the Public Service Pensions Act 2013(**1**).

In accordance with section 21 of that Act, the Secretary of State has consulted the representatives of such persons as appeared to the Secretary of State to be likely to be affected by these Regulations.

In accordance with section 3(5) of that Act, these Regulations are made with the consent of the Treasury.

The Secretary of State makes the following Regulations:

Citation, commencement interpretation and extent

1.—(1) These Regulations may be cited as the Local Government Pension Scheme (Amendment) Regulations 2014.

(2) In these Regulations "the Principal Regulations" means the Local Government Pension Scheme Regulations 2013(**2**)

(3) These Regulations come in to force as follows—

(a) on 1st October 2014, regulations 2, 4 and 5—

(i) so far as they insert regulation 105 (delegation) into the Principal Regulations,

(**1**) 2013 c. 25
(**2**) S.I. 2013/2356.

(ii) so far as they insert regulation 106 (local pension boards: establishment) into the Principal Regulations for the purposes of the obtaining of approval from the Secretary of State under paragraph (2) of that regulation, and

(iii) so far as they insert regulations 107 (local pensions boards: membership), 108 (local pensions boards: conflicts of interest), 111 (scheme advisory board: membership) and 112 (scheme advisory board: conflict of interest) for the purposes of appointment of members of local pension boards and the Local Government Pension Scheme Advisory Board; and

(b) on 1st January 2015—

(i) regulations 2, 4 and 5 so far as not already commenced, and

(ii) the remainder of these Regulations.

(4) These Regulations extend to England and Wales.

Amendment of the Local Government Pension Scheme Regulations 2013

2. The Principal Regulations 2013 are amended in accordance with regulations 3 to 5.

3. Omit regulation 53(4) (scheme managers: establishment of pension board).

4. In Schedule 1 (interpretation) after the entry for "local government service" insert—

""Local Government Pensions Scheme Advisory Board" means a board established under regulation 110 (Scheme advisory board: establishment);

"local pension board" means a board established under regulation 106 (local pension boards: establishment);"

5. After regulation 104(**3**) insert—

"PART 3

Governance

Delegation

105.—(1) The Secretary of State may delegate any functions under these Regulations.

(2) Administering authorities may delegate any functions under these Regulations including this power to delegate.

Local pension boards: establishment

106.—(1) Each administering authority shall no later than 1st April 2015 establish a pension board ("a local pension board") responsible for assisting it—

(a) to secure compliance with—

(i) these Regulations,

(ii) any other legislation relating to the governance and administration of the Scheme, and

(iii) requirements imposed by the Pensions Regulator in relation to the Scheme; and

(b) to ensure the effective and efficient governance and administration of the Scheme.

(2) Where the Scheme manager is a committee of a local authority the local pension board may be the same committee if approval in writing has been obtained from the Secretary of State.

(3) Approval under paragraph (2) may be given subject to such conditions as the Secretary of State thinks fit.

(**3**) Regulation 104 was inserted by S.I. 2014/1146.

(4) The Secretary of State may withdraw an approval if such conditions are not met or if in the opinion of the Secretary of State it is no longer appropriate for the local pension board to be the same committee.

(5) [Where a local pension board is established by a local authority within the meaning of section 270 of the Local Government Act 1972(**4**), Part 6 of that Act applies to the board as if it were a committee established under section 101 of that Act].

(5) [An administering authority may determine the procedures applicable to a local pension board, including as to voting rights, the establishment of sub-committees, formation of joint committees and payment of expenses].

(6) The expenses of a local pension board are to be regarded as part of the costs of administration of the fund held by the administering authority.

Local pension boards: membership

107.—(1) Subject to paragraphs (2) and (3) each administering authority shall determine—

(a) the membership of the local pension board;

(b) the manner in which members of the local pension board may be appointed and removed;

(c) the terms of appointment of members of the local pension board.

(2) A local pension board must include an equal number, which is no less than 4 in total, of employer representatives and member representatives (**5**) and for these purposes—

(a) a member of a local authority is not to be appointed as an employer or member representative; and

(b) the administering authority must be satisfied that—

(i) a person to be appointed as an employer representative has relevant experience and the capacity to represent employers on the local pension board; and

(ii) a person to be appointed as a member representative has relevant experience and the capacity to represent members on the local pension board.

(3) The number of members appointed under paragraph (2) must exceed the number of members otherwise appointed to a local pension board.

Local pension boards: conflict of interest

108.—(1) Each administering authority must be satisfied that any person to be appointed as a member of a local pension board does not have a conflict of interest(**6**).

(2) An administering authority must be satisfied from time to time that none of the members of a local pension board has a conflict of interest.

(3) A person who is to be appointed as a member of a local pension board by an administering authority must provide that authority with such information as the authority reasonably requires for the purposes of paragraph (1).

(4) A person who is a member of a local pension board must provide the administering authority which made the appointment with such information as that authority reasonably requires for the purposes of paragraph (2).

Local pension boards: guidance

109. An administering authority must have regard to guidance issued by the Secretary of State in relation to local pension boards.

(**4**) 1972 c. 70.
(**5**) See section 5(6) of the Public Service Pensions Act 2013 for definitions of these terms.
(**6**) See section 5(5) of the Public Service Pensions Act 2013 for the meaning of "conflict of interest".

Scheme advisory board: establishment

110.—(1) A scheme advisory board (“the Local Government Pension Scheme Advisory Board”) is established.

(2) The Local Government Pension Scheme Advisory Board is responsible for providing advice to the Secretary of State on the desirability of making changes to the Scheme.

(3) The Local Government Pension Scheme Advisory Board is also responsible for providing advice to administering authorities and local pension boards in relation to the effective and efficient administration and management of the Scheme and its pension funds.

(4) Subject to these Regulations, the Local Government Pension Scheme Advisory Board may determine its own procedures including as to voting rights, the establishment of sub-committees, formation of joint committees and the payment of remuneration and expenses.

Scheme advisory board: membership

111.—(1) The Local Government Pension Scheme Advisory Board is to consist of the following members—

(a) the Chair appointed by the Secretary of State; and

(b) at least 2, and no more than 12, persons appointed by the Chair with the approval of the Secretary of State.

(2) When deciding whether to give or withhold approval to appointments under paragraph (1)(b) the Secretary of State must have regard to the desirability of there being equal representation of persons representing the interests of Scheme employers and persons representing the interests of members.

(3) A member of the Local Government Pension Scheme Advisory Board is to hold and vacate office in accordance with the terms of that member’s appointment.

(4) The Chair of the Local Government Pension Scheme Advisory Board may appoint persons who are not members of the Local Government Pension Scheme Advisory Board to be members of sub-committees of that Board.

(5) A member of a sub-committee of the Local Government Pension Scheme Advisory Board is to hold and vacate office in accordance with the terms of that member’s appointment.

Scheme advisory board: conflict of interest

112.—(1) Before appointing, or approving the appointment of any person to be a member of the Local Government Pension Scheme Advisory Board, the Secretary of State must be satisfied that the person does not have a conflict of interest(**7**).

(2) The Secretary of State must be satisfied from time to time that none of the members of the Local Government Pension Scheme Advisory Board has a conflict of interest.

(3) A person who is to be appointed as a member of the Local Government Pension Scheme Advisory Board must provide the Secretary of State with such information as the Secretary of State reasonably requires for the purposes of paragraph (1).

(4) A person who is a member of the Local Government Pension Scheme Advisory Board must provide the Secretary of State with such information as the Secretary of State reasonably requires for the purposes of paragraph (2).

Scheme advisory board: funding

113.—(1) The expenses of the Local Government Pension Scheme Advisory Board are to be treated as administration costs of the Scheme and are to be defrayed by the administering authorities within the Scheme in such proportions as are determined by the Board.

(**7**) See section 7(5) of the Public Service Pensions Act 2013 for the meaning of “conflict of interest”.

(2) The Local Government Pension Scheme Advisory Board must identify the amount to be paid by each administering authority towards its annual costs based on—

(a) its annual budget approved by the Secretary of State; and

(b) the number of persons for which the administering authority is the appropriate administering authority.

(3) An administering authority must pay the amount it is required to pay under this regulation at such time or times as the Local Government Pension Scheme Advisory Board may determine.”.

We consent to the making of these Regulations

Names

Date Two of the Lords Commissioners of Her Majesty’s Treasury

Signed by authority of the Secretary of State for Communities and Local Government

Name

Parliamentary Under Secretary of State

Date Department for Communities and Local Government

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations amend the Local Government Pension Scheme Regulations 2013 (“the 2013 Regulations”) to make provision in respect of governance of the Scheme.

Regulation 1 commences the substantive provisions from 1st January 2015 for the purposes of making appointments to local pension boards and the Scheme Advisory Board, and brings the provisions fully into force from 1st April 2015.

Regulations 3 and 4 make minor amendments to the 2013 Regulations consequential to the substantive provisions.

Regulation 5 inserts a new Part 3 into the 2013 Regulations.

New regulation 105 permits the Secretary of State to delegate functions under the 2013 Regulations. It permits administering authorities to delegate their functions and also for any delegated function to be sub-delegated.

New regulations 106 to 109 make provision for each administering authority to establish a local pension board to assist it to comply with its legal obligations relating to the Scheme. Where a local authority discharges its pension functions through a committee, it can, with the approval of the Secretary of State appoint that existing committee to be the local pensions board. Local pensions boards must have equal representation of employer representatives and member representatives who must not be councillors of the administering authority and who must constitute the majority of members of the board.

Regulations 110 to 113 establish the Local Government Pension Scheme Advisory Board to advise the Secretary of State, administering authorities and local pension boards in relation to the Scheme. Provision is made for the appointment of members to the Board and for its funding.

Havering
LONDON BOROUGH

PENSIONS COMMITTEE **23 September 2014**	**REPORT**

Subject Heading:	Procurement of Actuarial Services to the Pension Fund
Report Author and contact details:	Contact: Karen Balam Designation: Transactional Manager Telephone: (01708) 432271 E-mail Address: Karen.balam@oneSource.co.uk
Policy context:	The contract provides for professional advice in connection with the Pension Fund's ability to meet its liabilities, with a valuation being carried out at least every three years in compliance with the Pensions Act 2004
Financial summary:	The net cost of Pension Fund actuarial services is charged to the Pension 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	[]
High customer satisfaction and a stable council tax	[X]

SUMMARY

Authorisation is sought to procure an actuarial services provider to the Pension Fund.

RECOMMENDATIONS

It is recommended that the Pensions Committee delegate:

1. To officers, as set out in section 2.4 of the report below, to undertake the procurement of the actuarial service provider.
2. To the Group Director of Resources to award the actuarial services contract at the completion of the procurement exercise.

REPORT DETAIL

1. Introduction

1.1. The contract for the Pension Fund actuary (with Hymans Robertson LLP) expires on 31 March 2015, having been extended for one year from 1 April 2014 as per the original tender for the contract that commenced in April 2010.

1.2. A new procurement exercise now needs to be carried out to secure actuaries from April 2015.

1.3. The Pension Committee has the delegated power under Part 3 of the Constitution, Responsibility for Functions to authorise staff to invite tenders and to award contracts to actuaries.

2. Background

2.1. Actuarial services includes the provision of advice and guidance to ensure compliance with the regulatory requirements of the Local Government Pension Scheme, including: the triennial valuation of the fund; carrying out opening valuations for new scheme employers; closing valuations for exiting scheme employers; and ad-hoc advice and guidance which takes account of their knowledge of the fund position and fund strategies.

2.2. Regulation 62 of the Local Government Pension Scheme Regulations 2013 requires a triennial valuation to be carried out be an actuary as at 31st March 2016 and every third year afterwards.

2.3. It is intended to conduct this procurement using one of the Local Government Frameworks for actuarial services, which are fully compliant with the Public Contract Regulations 2006

2.4. The Council can reduce the procurement time and costs using a local authority specific framework which has already been through a competitive tender, OJEU compliant procurement process.

2.5. The project team for the procurement will be the Transactional Manager, Exchequer and Transactional Services and the Pension Fund Accountant.

2.6. Depending upon the final decision, it may be possible to implement the new contract before the end of the current contract to deliver greater benefits for the Pension Fund. Therefore, delegation of the decision to officers is requested to provide the opportunity for a timely decision to be made.

2.7. TUPE does not apply to this contract.

2.8. To secure best value the aim of the contracting process is to secure the new actuarial services contract at the existing current costs or less if this can be achieved.

2.9. The main project risks include:

- Not being able to secure the services of an actuary by the 31st March 2015; and
- The cost of services increases;

2.9.1. These risks are being managed through the proposed use of one of the Local Government Frameworks for actuarial services that are currently already in place.

IMPLICATIONS AND RISKS

Financial implications and risks:

Scheme employers and admission bodies meet the costs of actuarial services for opening and closing valuations, and for the assessment of bond levels to minimise risk to the fund when services are transferred to external bodies involving the TUPE of employees.

The net cost of Pension Fund Actuarial services is charged to the Pension Fund and during the period 1st April 2010 to 31st March 2014 the net costs were £155k

Legal implications and risks:

The Constitution enables the Pension Committee to delegate the function of undertaking all aspects of the commissioning of the actuarial service to officers, and there is therefore no apparent legal risk in making the recommended decision. Clearly the procurement process itself will need to be undertaken in accordance with the Contract Procedure Rules and relevant legislation and legal advice will be available at all stages.

Human Resources implications and risks:

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

Equalities implications and risks:

There are no direct equalities implications and risk arising from this decision.

When procuring the service after the one year extension the Council's procurement process will be followed and an Equality Impact Assessment will be carried out as part of the process.

BACKGROUND PAPERS

Hyman Robertson's actuarial contract was procured for four years plus the option to extend for one year from 2010/11. The option to extend for one year from 1 April 2014 – 31 March 2015 was approved by a non-key Executive Decision report.