



Haverling

LONDON BOROUGH

PENSIONS COMMITTEE AGENDA

7.30 pm

**Tuesday
22 September 2015**

**Committee Room 3A -
Town Hall**

Members 7: Quorum 3

COUNCILLORS:

**Conservative
(3)**

John Crowder
(Chairman)
Melvin Wallace
Roger Westwood

**Residents'
(2)**

Stephanie Nunn
Ray Morgon

**East Haverling
Residents'
(1)**

Clarence Barrett

**UKIP
(1)**

David Johnson (Vice-
Chairman)

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:
James Goodwin 01708 432432
james.goodwin@OneSource.co.uk**

Protocol for members of the public wishing to report on meetings of the London Borough of Havering

Members of the public are entitled to report on meetings of Council, Committees and Cabinet, except in circumstances where the public have been excluded as permitted by law.

Reporting means:-

- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing, so that the report or commentary is available as the meeting takes place or later if the person is not present.

Anyone present at a meeting as it takes place is not permitted to carry out an oral commentary or report. This is to prevent the business of the meeting being disrupted.

Anyone attending a meeting is asked to advise Democratic Services staff on 01708 433076 that they wish to report on the meeting and how they wish to do so. This is to enable employees to guide anyone choosing to report on proceedings to an appropriate place from which to be able to report effectively.

Members of the public are asked to remain seated throughout the meeting as standing up and walking around could distract from the business in hand.

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 - 6)

To approve as correct the minutes of the meeting held on 23 June 2015 and authorise the Chairman to sign them.

5 PENSION FUND PERFORMANCE MONITORING - QUARTER 2 (Pages 7 - 24)

Report attached.

6 PENSION FUND ANNUAL REPORT 2014/15 (Pages 25 - 212)

Report attached.

7 PENSION FUND ACCOUNTS 2014-15 (Pages 213 - 246)

Report attached.

8 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.

9 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.

10 EXEMPT MINUTES

To approve as a correct record the exempt minutes of the meeting held on 23 June 2015 and authorise the Chairman to sign them.

11 QUARTER 2 PERFORMANCE - HYMANS REPORT

12 PRESENTATION BY ROYAL LONDON

13 PRESENTATION BY RUFFER

14 MANAGEMENT OF BOND ALLOCATION

**Andrew Beesley
Committee Administration
Manager**

**MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Committee Room 3A - Town Hall
23 June 2015 (7.30 - 10.10 pm)**

Present:

COUNCILLORS

Conservative Group John Crowder (Chairman), Melvin Wallace and Roger Westwood

Residents' Group Ray Morgon

**East Havering
Residents' Group** Clarence Barrett

UKIP Group David Johnson (Vice-Chair)

Apologies were received for the absence of Councillor Stephanie Nunn, John Giles, (UNISON) and Heather Foster-Byron (Admitted/Scheduled Bodies).

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

1 MINUTES OF THE MEETING

The minutes of the meeting held on 17 March 2015 were agreed as correct record and signed by the Chairman.

2 PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED MARCH 2015

Officers advised the Committee that the net return on the Fund's investments for the quarter to 31 March 2015 was 4.5%. This represented an out performance of 1.1% against the combined tactical benchmark and an under performance of -0.4% against the strategic benchmark.

The overall net return for the year to 31 March 2015 was 13.2%. This represented an out performance of 1.7% against the tactical combined benchmark and an under performance of -12.9% against the annual strategic benchmark.

1. Hymans Robertson (HR)

Market Summary

- Hymans Robertson updated the Committee with a roundup of the market background as at the end of March 2015.
- Equity markets were buoyant over the quarter, with all main regional indices delivering positive returns. Japan and Europe (ex U.K.) were the stand out performers, returning 16.4% and 10.6% respectively.
- Yields continued to remain low over the quarter, with longer dated conventional and index linked gilts returning 4.1% and 3.3% respectively.
- Credit spreads narrowed significantly over the quarter and corporate bonds delivered a return of 3.2%.
- Property markets, represented by the IPD Monthly property Index, returned 3.0% over the quarter and 18.3% over the last 12 months as investment flows into the asset class continues.

Fund Performance

- Assets were valued at £573.8m as at 31 March 2015, an increase of £24.9m over the quarter. The total return on the Fund's assets over the quarter was 4.5%, ahead of the benchmark return of 1.1%
- Each of the Fund's mandates produced positive absolute returns over the quarter, with the most significant returns being generated by the Fund's equity mandates with Baillie Gifford and State Street.

Investment Manager changes

- During the quarter the Fund invested £100.75m into the GMO Global Return Fund. This was phased over two dealing dates with the first tranche of £50m being invested on 13 January 2015 and the second tranche of £50.75m occurring on 20 January 2015.
- Also during the quarter, Mike Brooks, one of the portfolio managers for the Baillie Gifford Diversified Growth Fund resigned. Given the team structure employed in managing the fund, Hymans did not believe this would have a material impact on performance prospects and had maintained a "5 – Preferred Manager" rating.

- The rating for UBS Triton had been upped to “4 – Retain.” This followed a number of changes to the UBS management team, the underlying property portfolio, the fund’s investor base and the overall fund governance structure over the last two years, all of which Hymans believed were positive steps.

2. Baillie Gifford (BG)

Fiona MacLeod and Paul Morrison attended the meeting to give a presentation on the performance of the Funds mandates in the Baillie Gifford Global Alpha Fund and the Baillie Gifford Diversified Growth Fund.

Since inception in April 2012 the Global Alpha Fund had achieved a return of 18.2% outperforming the benchmark by 2.7%.

Since inception in November 2013 the Diversified Growth Fund had achieved a return of 6.9% per annum outperforming the benchmark by 2.8%.

Both funds had been set targets which they would seek to better over a rolling five year period so it was still early days.

3. GMO

Tommy Garvey and Helen Roughsedge attended the meeting to deliver a presentation on GMO’s performance since inception. Although the Fund had only recently invested funds with GMO Global Real Return UCITS Fund their performance to date had been encouraging. This performance had been driven by strong equity performance, partially offset by weak fixed income performance.

The Committee **noted** the reports and presentations.

3 PENSION FUND RISK REGISTER

Risk Management was a key responsibility of those charged with Pension Fund Governance and the need for effective risk management was reflected throughout guidance and regulation in the Local Government Pension Scheme. The risk register had been compiled with reference to the CIPFA ‘Managing Risk in the LGPS (2012)’, input from the Internal Audit, Insurance and Corporate Risk Manager, Risk Consultants from Zurich Municipal, Pension Fund Accountant, Corporate and Strategic Finance Manager and the Pensions Administration Project Manager.

Officers advised that seven key risks had been identified and recorded in the risk register and summarised below:

1. Inaccurate three yearly actuarial valuations - insufficient funding to meet liabilities;
2. Incorrect/Inappropriate Investment Strategy - failure to meet strategic objectives by not reducing pension deficit;
3. Failure of investments to perform in-line with growth expectations – potential loss of money;
4. Failure to comply with legislative requirements – potential litigations;
5. Inability to manage the Pension Fund and associated services – negative impacts upon service provision;
6. Failure to effectively enrol new employers/members – cash flow impacts and possible litigations;
7. Pension Fund payment Fraud – potential financial loss.

The Committee have **noted** the report.

4 **BUSINESS PLAN/ANNUAL REPORT ON THE WORK OF THE PENSIONS COMMITTEE 2014/15**

Officers had prepared a report detailing the work undertaken by the Committee in 2014/15 and drawn up a work programme for 2015/16. Included in the report had been an assessment of the training requirements for members of the Committee. This would form the basis of the Pension Fund Business Plan.

In accordance with CIPFA guidance the Business Plan contains the following:

- Major milestones & issues to be considered by the committee;
- Financial estimates – investment and administration of the fund;
- Appropriate provision for training;
- Key targets & methods of measurement;
- Review level of internal & external resources the committee needs to carry out its functions;
- Recommended actions to put right any deficiencies.

The Committee have:

1. Agreed the Business Plan/Report of the work of the Committee and referred it to Council for consideration; and
2. Agreed the training proposals set out in the work plan.

5 **EXCLUSION OF THE PUBLIC**

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

6 **OPTIONS FOR CHANGE TO EQUITY AND BOND MANDATES**

Prior to the beginning of the meeting the Committee had received training to better able them to make an informed decision on this matter.

Having considered the report and the advice of the Fund Advisors we have:

1. **Agreed** to adopt the FTSE RAFI 300 index for a portion of the passive equity mandate managed by SSGA;
2. **Agreed** to increase the return objective to 1.25% for the bond mandate and allow the Manager greater flexibility in the management of the mandate; and
3. **Agreed** that officers submit a further report to our next meeting re a further diversification of bond assets.

7 **THE ADMISSION OF CATERLINK LTD TO THE LONDON BOROUGH OF HAVERING'S PENSION FUND**

Officers had advised that the Bower Park Academy had awarded the contract to provide catering services to Caterlink Ltd. The contract is due to transfer on 1 September 2015 at which time the contracts of employment of the existing staff (5 employees) would transfer from the Council to Caterlink Ltd under the Transfer of Undertakings (Protection of Employment) Regulations.

Caterlink Ltd had applied for Admitted Body Status in order to participate in the Local Government Pension Scheme for the provision of pension benefits for the transferring employees.

The Pension Fund Actuary had assessed the level of indemnity bond required to be £37,000 although the exact arrangements for the bond cover would have to be finalised. When the admission agreement was formed, Caterlink Ltd would be required to pay contribution rates as determined by the Fund Actuary.

The Closed admission of Caterlink Ltd as transferee body into the London Borough of Havering Pension Fund was **agreed** subject to:

- a. All parties signing up to an Admission Agreement; and
- b. An Indemnity or Insurance Bond in an approved form with an approved insurer or relevant institution, being put in place to protect the letting authority/pension fund.

Chairman

PENSIONS COMMITTEE
22 September 2015

Subject Heading:

**PENSION FUND PERFORMANCE
MONITORING FOR THE QUARTER
ENDED JUNE 2015**

CMT Lead:

Andrew Blake Herbert

Report Author and contact details:

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Debbie.ford@onesource.co.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 2015

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

Havering will be clean and its environment will be cared for	<input type="checkbox"/>
People will be safe, in their homes and in the community	<input type="checkbox"/>
Residents will be proud to live in Havering	<input checked="" type="checkbox"/>

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 2015. 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 2015 was **-2.3%**. This represents an under performance of **-0.5%** against the tactical benchmark and an out performance of **3.5%** against the strategic benchmark.

The overall net return of the Fund's investments for the **year** to 30 June 2015 was **8.8%**. This represents an out performance of **1.2%** against the tactical combined benchmark and an under performance of **-8.7%** against the annual strategic benchmark. The annual strategic benchmark is a measure of the fund's performance against a target based upon gilts + 1.8% (the rate which is used in the valuation of the funds liabilities). The implications of this shortfall are discussed further in paragraphs 1.2 and 1.3 below.

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 the Bonds Manager (Royal London) and from the Fund's Multi-Asset Manager (Ruffer).
- 3) Notes the summary of the performance of the Pension Fund within this report.
- 4) Considers the quarterly reports provided by each investment manager.
- 5) Considers and notes any Corporate Governance issues arising from voting as detailed by each manager.
- 6) Considers any points arising from officer monitoring meetings (section 4 refers).
- 7) Notes the analysis of the cash balances (paragraphs 2.2 and 2.3 refers).

REPORT DETAIL

1. Background

- 1.1 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 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 strategic benchmark measures the extent to which the fund is meeting its longer term objective of reducing the funds deficit. This current shortfall is driven by the historically low level of interest rates which drive up the value of gilts (and consequently the level of the fund liabilities). Whether interest rates will remain at those levels for the longer term and the implications for the Fund's Investment strategy is a matter which will need to be considered at the time of the next actuarial review.
- 1.3 Our Investment Advisors have stated that there are things that could have been done to protect the fund against falling interest rates (e.g. hedging) but they do not believe that this action would have been appropriate. The Fund is already partially protected through its investments with Royal London and given the long term nature of the fund they believe that the fund objective of pursuing a stable investment return remains appropriate. They also note that although the value placed on the liabilities has risen as a result of falling yields, inflations and expectations of future inflation have fallen meaning that the actual benefit cashflows expected to be paid from the fund will be lower.
- 1.4 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.
- 1.5 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.
- 1.6 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 Global Assets (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	<ul style="list-style-type: none"> ➤ 50% iBoxx Sterling Non Gilt Over 10 Year Index ➤ 16.7% FTSE Actuaries UK Gilt Over 15 Years Index 	0.75%

Manager and % of target fund allocation	Mandate	Tactical Benchmark	Out performance Target
		➤ 33.3% FTSE Actuaries Index-Linked Over 5 Year Index	
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
GMO Global Real Return (UCITS) 20%	Multi Asset	OECDG7 CPI by +3 to 5% over the medium to long term-	To outperform the benchmark
Baillie Gifford – Diversified Growth Fund 15%	Multi Asset	UK Base Rate +3.5%	To outperform the benchmark

1.7 At the Pension Committee meeting held on the 23 June 2015 members agreed to adopt the FTSE RAFI 3000 Index in respect of 50% of the passive equity mandate managed by SSgA with the balance continuing to be managed against a market cap weighted index. Members agreed to rebalance the allocations between SSgA and Baillie Gifford so as to increase the weighting to the SSgA mandate to 12.5% of assets, such that the target 25% allocation to equities is split equally between the two managers. It was also agreed that to increase the return objective to 1.25% for the bond mandate (managed by RLAM) and allow the manager greater flexibility in the management of the mandate and the ability to invest a proportion of the mandate in higher yielding bonds. The table above will reflect these changes once the transfers have completed.

1.8 UBS, SSgA, GMO and Baillie Gifford 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.

1.9 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).

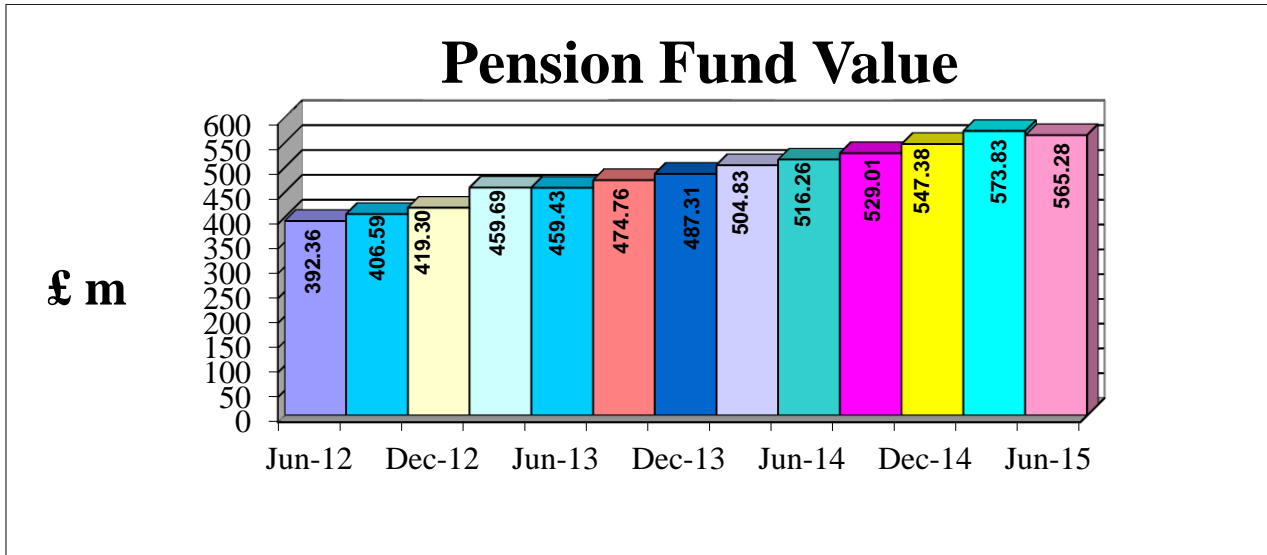
1.10 Existing Managers are invited to present at the Pensions Committee Meeting every six months. On alternate dates, they meet with officers for a formal monitoring meeting. The exception to this procedure are the pooled Managers (SSgA, UBS, Baillie Gifford and GMO) and Ruffer who will attend two meetings 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 will be made for additional presentations.

1.11 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 Jun 15 was **£565.28m**. This valuation differs from the basis of valuation used by our Fund Managers and our Investment Advisor in that it excludes accrued income. This compares with a fund value of £573.83m at the 31 Mar 15; a **decrease of £8.55m**. The movement in the fund value is attributable to a decrease in assets of £12.35m and an increase in cash of £3.80m. The internally managed cash level stands at **£11.02m** of which an analysis follows in this report.



Source: WM Company (Performance Measurers)

2.2 An analysis of the internally managed cash balance of **£11.02m** follows:

<u>CASH ANALYSIS</u>	<u>2013/14</u> <u>31 Mar 15</u>	<u>2014/15</u> <u>31 Mar 15</u> <u>Updated</u>	<u>2015/16</u> <u>30 Jun 15</u>
	£000's	£000's	£000's
Balance B/F	-3474	-5661	-7599
Benefits Paid	32552	33568	8057
Management costs	2312	1600	40
Net Transfer Values	-1131	-135	213
Employee/Employer Contributions	-45659	-35306	-13207
Cash from/to Managers/Other Adj.	9825	-1618	1494
Internal Interest	-86	-47	-15

Movement in Year	-2187	-1938	-3418
Balance C/F	-5661	-7599	-11017

- 2.3 As agreed by members on the 27 June 2012 a cash management policy has now been adopted. The policy sets out that should the cash level fall below the de-minimus amount of £2m this should be topped up to £4m. This policy includes drawing down income from the bond and property manager.
- 2.4 The cash management policy also incorporates a threshold for the maximum amount of cash that the fund should hold and officers are currently considering options available to address that the levels of cash exceed more than 1% of the fund assets. Officers are in the process of revising the cash management policy to reflect the current cash holding requirements and this will be submitted to the Pensions Committee at a later date.

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 30.06.15	12 Months to 30.06.15	3 Years to 30.06.15	5 years to 30.06.15
Fund	-2.3%	8.8%	11.6%	10.3%
Benchmark return	-1.8%	7.4%	9.3%	9.2%
*Difference in return	-0.5%	1.2%	2.1%	1.0%

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 30.06.15	12 Months to 30.06.15	3 Years to 30.06.15	5 years to 30.06.15
Fund	-2.3%	8.8%	11.6%	10.3%
Benchmark return	-5.6%	19.1%	8.3%	11.9%
*Difference in return	3.5%	-8.7%	3.0%	-1.4%

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 2015)

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark	Target	Performance vs Target
Royal London	4.63	5.34	-0.71	5.15	-0.52
UBS	3.25	3.32	-0.07	n/a	n/a
Ruffer	0.41	0.10	0.31	n/a	n/a
SSgA	-5.06	-5.06	0.00	n/a	n/a
SSgA Sterling Liquidity Fund	0.13	0.09	0.04	n/a	n/a
Baillie Gifford (Global Alpha Fund)	-4.90	-5.10	0.20	-4.48	-0.43
Baillie Gifford (DGF)	-0.70	1.00	-1.70	n/a	n/a
GMO	0.22	0.58	-0.80	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	12.12	12.37	-0.24	13.12	-1.00
UBS	15.86	15.53	0.33	n/a	n/a
Ruffer	11.59	0.60	10.99	n/a	n/a
SSgA	10.13	10.16	-0.03	n/a	n/a
SSgA Sterling Liquidity Fund	0.51	0.36	0.15	n/a	n/a
Baillie Gifford (Global Alpha Fund)	12.80	10.10	2.70	12.60	0.20
Baillie Gifford (DGF)	4.80	4.00	0.80	n/a	n/a

Source: WM Company, Fund Managers and Hymans

- Totals may not sum due to geometric basis of calculation and rounding.
- GMO not invested for entire period

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 2015 follows.
- b) The value of the fund as at 30 June 15 decreased by 4.59% on the previous quarter.
- c) Royal London delivered a return of -4.63 over the quarter, outperforming the benchmark by 0.7%. The Fund is behind the benchmark over the year by -0.24%.

4.2. Property (UBS)

- a) In accordance with agreed procedures officers met with representatives from UBS on the 20 August 2015 at which a review of their performance as at 30 June 15 was discussed.
- b) The value of the fund as at 30 June 15 increased by 3.81% since the previous quarter.
- c) UBS delivered a return of 3.2% over the quarter, slightly underperforming the benchmark by 0.07%. The Fund is ahead of the benchmark over the year by 0.33%.
- d) The number of properties in the fund currently stands at 28 and a void rate of 7.14%, which is expected to fall, at the moment they are happy to have empty properties so that they can move tenants around in industrial units to maximise space and returns. Average property yield is currently 5.75%.
- e) As at the date of the meeting there is 0.00% leverage (maximum of 10% permitted).
- f) UBS were pleased to announce the new appointment of an Asset and Transaction Manager, Gijsbert van Riemsdijk originally joined GRE UK on a secondment from their Amsterdam office has now joined on a permanent basis.
- g) Only one sale was completed over the quarter, a shopping centre in Ashford. The sale was consistent with UBS's strategy to divest the Fund from secondary shopping centres, and to sell assets with limited performance potential.
- h) The Fund has purchased one new property this quarter, student accommodation in Newcastle upon Tyne; this was another off market purchase of brand new purpose built accommodation on a rare central city site in an established university city. The capital has already appreciated on completion. The forward purchase of a new office under construction in central London has now been completed, this was an off market purchase which has strong rental growth prospects. The property has increased in

value since the original purchase price and rental space has increased in price.

- i) During the quarter, transactions completed included a 25 year lease at Grand Junction Retail Park with Chiquito Ltd. The Fund also completed two 10 year leases at Meols Cop Retail Park in Southport with Halfords and Tops Tiles.
- j) Performance was mainly driven by the Funds strategically overweight position in Central London and the industrial sector. UBS's current strategy is to retain its overweight position in retail warehousing, industrial and London offices and to increase its exposure to alternative real estate. The fund concentrates on dominant multi let assets in growth areas with long term asset management.
- k) UBS indicated that they were investing in student accommodation as under its alternative sector strategy. They have already invested in this sector in Newcastle and are currently negotiating the purchase of a similar structure in Durham. They said the attraction of investment in the private rental section (residential properties to rent to students) is a good sustainable rental income, with very low voids and relatively low risks.
- l) The new UBS Triton Supervisory Board met in July, main outcomes of the meeting included a cash flow and redemption update, confirming the current amount in the redemption queue and noting that a number of secondary market trades have reduced the queue from last quarter levels. They were presented with an overview of the property market which has seen a steady performance in Qtr.1 2015. There is to be a review of the current Valuation Advisor due to the ending of the current existing provider and this will take place during the following quarter. There will be a separate meeting to discuss fund restructuring due to an enquiry from an investor about whether to restructure as a Property Authorised Investment Fund (PAIF), however it is unlikely due to liquidity requirements. They also discussed staffing reviews and the procurement process.
- m) We asked whether increased interest rates would affect the portfolio. UBS said that as they have no debt at the moment this would not affect them.
- n) No whistle blowing issues or governance was reported.

4.3. Multi Asset Manager (Ruffer)

- a) Representatives from Ruffer are due to make a presentation at this Committee therefore a brief overview of their performance as at 30 June 2015 follows.
- b) 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 24

June 2014 meeting at which their performance as at the end of March 14 was discussed. Officers met with representatives from Ruffer on 05 February 2015 at which a review of their performance as at 31 December 2014 was discussed.

- c) Since officers last met with Ruffer in February 2015, the value of the fund has increased by 5.07%. In the quarter ending June 15 the value rose by 0.95%.
- d) Ruffer delivered a return of 0.41% (net of fees) over the quarter, outperforming the benchmark by 0.31%. The Fund is ahead of the benchmark over the year by 10.99%.

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 met with the members of the Pension Committee on the 17 March 2015 at which they covered the period ending up to 31 December 2014. Officers met with representatives from SSgA on the 11 May 2015 at which a review of their performance as at 31 March 15 was discussed.
- b) Pending consideration of options for an investment in Local Infrastructure the £11.5m is still invested in the SSGA Sterling Liquidity Fund.
- c) The SSgA Sterling liquidity fund has outperformed the benchmark by 0.04% over the quarter. Since inception they have outperformed the benchmark by 0.13%
- d) The SSgA Passive Equity mandate has performed in line with the benchmark over the quarter. Since inception they have underperformed against the benchmark by -0.02%.
- e) At a previous meeting 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.
- f) Hymans presented a paper to members on the options of switching indices on the 23 June 2015 and following a training session members agreed to transfer 50% of the assets held in the SSgA's Passive All World Equity Index to SSgA's Fundamental Index Global Equity Fund (adopting the FTSE RAFI 3000 Index).
- g) At the same meeting members agreed to rebalance the allocations between SSgA and Baillie Gifford (Global Alpha) so as to increase the weighting to the SSgA mandate to 12.5% of assets. This will result in the target 25% allocation to equities split equally between the two managers.

4.5. Global Equities Manager (Baillie Gifford)

- a) In accordance with agreed procedures officers met with representatives from Baillie Gifford on the 20 August 2015 at which a review of their performance for their Global Equities Fund as at 30 June 15 was discussed.
- b) The value of the fund decreased by 4.88% over the last quarter.
- c) Baillie Gifford Global Alpha Mandate has outperformed the benchmark over the last quarter by 0.20% (net of fees) and outperformed the benchmark over the last year by 2.70% (net of fees).
- d) Since inception the Baillie Gifford fund has increased by £32.8m
- e) At the pensions Committee meeting held on the 23 June 2015 members agreed to rebalance the allocations between SSgA and Baillie Gifford so as to increase the weighting to the SSgA mandate to 12.5% of assets. This will result in the target 25% allocation to equities split equally between the two managers. £16.5m will be disinvested with Baillie Gifford and transferred to SSgA during August 2015.
- f) Positive performance came from a wide range of stock contributors, with Royal Caribbean Cruises again making the strongest contribution followed closely by Naspers (South African Multi National internet and Media group). There were no major challenges over the past quarter apart from the continuing fall in oil and gas prices.
- g) Detractors from performance mainly included companies in the Oil and Gas industries with Ultra Petroleum being the largest; however they continue to have confidence in this holding as it is very good operationally with a strong balance sheet.
- h) Their fund positioning remains mainly unchanged over the past quarter, current positioning of the portfolio has holdings in Growth Stalwarts (strong Brands) 22.6%, Rapid Growth (fastest growth) 27.7%, Cyclical Growth (longer term performance) 34.4%, Latent Growth (stocks most out of favour with the markets) 14.1% and cash of 1.2%.
- i) They purchased new stocks in Financial Engines, Zillow, HDFC, C.H.Robinson, MS&AD Insurance, and Banco Popular.
- j) They Increased holdings in SAP, Alibaba, and CRH.
- k) Completed Sales in British American Tobacco, Roche, Bunzl, Bank Negara Indonesia, Shandong Weigao, Norsk Hydro, Teradata, Jyske Bank and Tallow Oil.

- l) They reduced holdings in Moody's, Naspers, Royal Caribbean Cruises, FLIR, Inpex and Samsung Electronics.
- m) Turnover of stock remained low, they have not reduced holding in the largest detractors of the portfolio as they are mainly companies affected by the reduced oil prices, they have an optimistic view for these companies which are operationally going as they would like, with strong balance sheets.
- n) Baillie Gifford has referred to the present time being a period of "rapid creative destruction, fuelled by the convergence of a host of dynamically evolving technologies". We asked why they believe this to be particularly strong at the moment. Creative destruction is a method where capitalism destroys a previous economic order to clear the ground for the creation of new wealth. In investment terms this means the demise of many high profile stocks i.e. Oil and Gas companies due to de-carbonisation, replaced by new energy technologies. Baillie Gifford actively look for innovative businesses they have made global discoveries of the early stages of new technologies.
- o) Baillie Gifford mentioned the "de-carbonisation" of the portfolio in their quarterly report in terms of exposure to Oil and Gas companies; we asked if they monitor indirect carbon exposure such as the carbon impact of electricity use by companies in the portfolio. They said that yes they do and they take this very seriously, they highlighted climate change and a low carbon economy as a key theme for the years ahead. This quarter, they attended key policy events in Paris in the run up to the international climate negotiations and supported important industry research. They are actively managing the fund, and are looking specifically at the Oil & Gas industries with a ten year view of a movement away from energy systems dominated by fossil fuels, and the transition to a low carbon economy. They said that with this in mind, they are actively looking for new innovative technologies (disruptive champions) to replace them.
- p) Baillie Gifford were asked what proportion of the overall fund is invested in "youthful, capital- light companies", and as these companies have typically higher valuations are they potentially more vulnerable in a broad equity decline. They said that large chunks of the rapid growth portfolio are investments in capital-light companies, i.e. internet, media companies. They have small holding in lots of incubator companies, expecting interest for the future, Naspers being an example. They do not see these companies as more vulnerable as in a decline of equity markets, they are cheaper and easier to sell having less capital (building, equipment etc.) to liquidise.
- q) Baillie Gifford reduced holdings in Royal Caribbean and Nasper, the two strongest performers in the portfolio to take advantage of the strong share price. Both these stocks remain among the highest portfolio holding, we asked if these stocks are still attractive at the current price, or are they 'riding the momentum' to their large position sizes. They said that they are confident for the future of these holdings and that in particular Royal

Caribbean share price will continue to be strong, capitalising on the continuing low oil prices.

- r) Overall, Baillie Gifford's outlook for the portfolio over the longer term is good, with a well-diversified portfolio of growth stocks underpinning potential for long term attractive returns. They have a wide range of investment ideas coming up through their investment process. They are excited about the emergence of disruptive champions and the growth opportunities of these innovative companies.
- s) 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 20 August 2015 at which a review of their performance as at 30 June 15 for the Diversified Growth Fund was discussed.
- b) The value of the fund has seen a decrease in value of 0.71% over the last quarter.
- c) Baillie Gifford Diversified Growth Mandate has underperformed the benchmark by -1.70% over the last quarter and has outperformed the benchmark over the year by 0.80%.
- d) The main contributors to performance were listed equities and the active currency position.
- e) The main detractor from performance came from Commodities.
- f) The portfolio continues to be invested in a wide range of asset classes. The asset class returns were mixed over the quarter. Further economic progress in the US and Europe was offset by a weakening data from china, whilst market concerns increased at the end of the quarter due to Greece's missed IMF payment. They continue with cautious positioning while there remains volatility in the market, but remain confident in their ability to continue to meet the funds objectives.
- g) Recent changes to asset allocation include a reduction to the Funds short Australian dollar exposure over the quarter; Baillie Gifford had seen this position as protection to the portfolio of further Chinese weakness. As this has come to pass and the Australian dollar has moved closer to its fair value, they reduced the size of the position.
- h) During the quarter Baillie Gifford added more High Yield credit, the attraction being the spread over comparable duration government bonds, they therefore also opened a short position in German five year government bond futures. They also increased the allocation to European property – they bought a basket of (2%) of European commercial and residential

properties – after an average 10% reduction in Real Estate Investment Trust (REIT) valuations. These REIT's have moderate leverage and offer an initial net yield of around 6%.

- i) The listed Equity exposure is split so to favour Japan, Europe and the Emerging Markets over the US.
- j) The allocation to equities has been increasing over the past few years and at its highest level since inception. We asked Baillie Gifford whether this is because of a bullish view of the equities market or a lack of opportunities elsewhere? They said the increased equities allocation was due to both these reasons; they are taking advantage of the strong equity market while there is a lack of opportunity elsewhere. They monitor the markets rigorously to minimise any potential losses. They have a good regional mix which they are comfortable with. They have reduced US holdings as they are now expensive in favour of Asian and Japanese equities; they said that the market could still go higher.
- k) Baillie Gifford noted in terms of performance there have been no real surprises this quarter in the context of the Global economy. The positive and negative have negated each other smoothing out volatility.
- l) The portfolio has a 10% allocation to emerging market bonds and we asked if this is in local currency, they said yes it was, so we asked what their outlook was for this allocation and emerging markets in light of Chinas recent devaluation of its currency. They said they did not hold any Chinese bonds, but in general for the emerging markets they expect a fall over the short term but long term forecast still looks good.
- m) One of the recent detractors this quarter has been the funds exposure to precious metals; we asked if their original rationale is still valid for maintaining this exposure. They agreed that Platinum, Palladium and Gold have all fallen, whilst Gold fell modestly in value as a move towards higher US interest rates edged closer and concerns over rising inflation remains on the side lines. It was the fall in Palladium and Platinum that had the biggest impact. Both metals are used extensively in the car industry which suffered due to the slower Chinese growth and dented forecast sales for the world's fastest growing car market and whilst concerns over Greece has taken some of the momentum out of the European market they still feel that long term their position still holds.
- n) No governance or whistle blowing issues were reported

4.7. Multi Asset Manager (GMO – Global Real Return (UCITS) Fund)

- a) In accordance with agreed procedures officers will only meet with representatives from GMO once in the year with the other meeting to be held with members. GMO met with the members of the Pension Committee on the 23 June 2015 at which they covered the period ending up to 31 March 2015.

Officers are scheduled to meet with representatives from GMO on the 5 November 2015.

- b) A brief overview of their performance as at 30 June 2015 follows.
- c) The value of the Fund as at the end of June 2015 has decreased by 0.22%.
- d) The GMO mandate has underperformed the benchmark by -0.80% over the last quarter and underperformed the benchmark by -0.08% since inception.

4.8 WM Performance Measurers

- a) Officers met with a WM representative on the 20th August 2015 who gave their annual presentation on the returns of the WM universe (all other LGPS funds) and how the Havering Fund performed compared to the universe. A summary of the major points for the 2014/15 returns are as follows:
- b) WM universe is made up of 85 funds with a combined asset value of £200billion.
- c) The benchmark for the universe was 13.2%.
- d) The Havering Fund is now structured differently from the average fund as shown in the table below :

Asset Allocation	Universe	Havering
Equities	61	25
Bonds	17	17
Multi Asset	3	35
Cash	8	3
Alternatives	3	15
Property	8	5

- e) Havering Pension Fund return was 13.3% and outperformed the universe benchmark by 0.1%.
- f) Havering Pension Fund achieved an overall ranking for the year of 51st.
- g) The performance can be attributed to the effects of asset allocation, with overseas equities (Japan in particular) and property making the greatest contribution, with strong bonds returns inflating liability values. Main detractors were the allocation of assets to multi asset and cash.

	2014/15	2013/14	3 Years	5 Years	10 Years
Fund Return	13.3	7.2	11.6	9.2	7.2
Benchmark (WM Universe)	13.2	6.4	11.0	8.7	7.9

Pensions Committee, 22 September 2015

Relative Return	0.1	0.7	0.5	0.4	-0.6
Ranking	51	35	33	36	76

- h) 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 which is broadly in line with other funds in the WM universe.
- i) WM summarised 2014/15 as a solid year of returns for the LGPS with strong equity/property returns boost asset values but equally strong bond returns inflate liability values. The Fund had a strong year on both absolute and relative basis. Over the long term the fund has outperformed the strategic benchmark and sits within the top third in the 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 manager attending the meeting will be from:

Royal London (Bonds Manager) and Ruffer (Multi asset Manager).

- 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 implications and risks:

None arising that directly impacts on residents or staff.

BACKGROUND PAPERS

Royal London Quarterly report to 30 June 2015
UBS Quarterly report to 30 June 2015
Ruffer Quarterly report 30 June 2015
State Street Global Assets report to 30 June 2015
Baillie Gifford Quarterly Reports 30 June 2015
GMO Quarterly Report 30 June 2015
The WM Company Performance Review Report to 30 June 2015

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PENSIONS COMMITTEE
22 September 2015

Subject Heading:

**PENSION FUND ANNUAL REPORT-
YEAR ENDED 31 MARCH 2015**

CMT Lead:

Andrew Blake Herbert

Report Author and contact details:

Debbie Ford
Pension Fund Accountant
01708432569
Debbie.ford@onesource.co.uk

Policy context:

Regulation 57 of the LGPS Pension Scheme Regulations 2013 applies from reporting period commencing 1 April 2014 and requires an administrative authority to publish an annual report

Financial summary:

Audit costs for the pension fund annual report are part of the overall cost of auditing the pension fund statement of accounts

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

Havering will be clean and its environment will be cared for	<input type="checkbox"/>
People will be safe, in their homes and in the community	<input type="checkbox"/>
Residents will be proud to live in Havering	<input checked="" type="checkbox"/>

SUMMARY

This report includes the Pension Fund Annual Report 2014/15 which has been prepared in accordance with Regulation 57 of the Local Government Pension Scheme Regulations 2013 which applies for reporting periods beginning 1 April 2014. This supersedes Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

RECOMMENDATIONS

1. The Committee agree the 2014-2015 Pension Fund Annual Report.
2. The Committee agree the Pension Fund Annual Report will be published electronically.
3. That the Chairman and the Director of Communities and Resources be authorised to conclude and sign so far as necessary, the annual report.

REPORT DETAIL

1 Background

1. For reporting periods beginning 1 April 2014, the statutory basis for Local Government Pension Scheme (LGPS) fund annual reports is Regulation 57 of The Local Government Pension Scheme Regulations 2013. It states that an administering authority must, in relation to each year beginning on 1st April 2014 and each subsequent year prepare a document ('the pension fund annual report'). This supersedes the regulations first introduced in 2008. LGPS funds have been required to produce an annual report each year since 2008.
2. The authority must publish the pension fund annual report on or before 1 December following the year end. This annual report covers the period 1 April 2014 to 31 March 2015.
3. The Regulations state that the annual report must contain the following:
 - a) Management and Financial Report
 - b) Investment Policy and Performance Report
 - c) Scheme Administration Report
 - d) Actuarial Statement
 - e) Current version of the Governance Compliance Statement
 - f) Fund Account and Net Asset Statement (including Audit opinion)
 - g) Levels of performance set out in a Pensions Administration Strategy
 - h) Current version of Funding Strategy Statement
 - i) Current version of Statement of Investment Principles
 - j) Current version of Communication Strategy
 - k) Any Other Material
4. In preparing and publishing the pension fund annual report, the authority must have regard to guidance given by the Secretary of State.

5. On the 18 August 2014 the Department of Communities and Local Government (DCLG) issued a letter stating that authorities should use the guidance published by the Chartered Institute of Public Finance & Accountancy (CIPFA).
6. The pension fund annual report attached as **Appendix A** has been prepared in accordance with the guidance issued by the DCLG and with regard to the updated CIPFA/PRAG guidance issued in August 2014.
7. The Audit Commission requires auditors to treat the LGPS fund as a separate audit engagement and requires a separate audit opinion on the pension fund accounts and the annual report. The auditors opinion will be included in the annual report which must be published no later than **1 December 15**.
8. The DCLG have stated that it can be taken that the term 'publish' is given a wider meaning in that publication can be by electronic means. Once the annual report has been signed off it will be made available on the council's website. However hard copies will be available upon request.
9. At the time of writing this report the 2014/15 pension fund annual report is still subject to final clearance by our auditor's PricewaterhouseCoopers (PwC) as part of the overall audit of the Council's accounts. Once the auditors have cleared the annual report a verbal update will be provided at the meeting and any material changes will be distributed as a late item.

IMPLICATIONS AND RISKS

Financial implications and risks:

Auditors will be unable to finalise the audit opinion for the Administering Authority as a whole until they are satisfied that the financial statements in the annual report are the same as those reported in the authority's accounts.

The cost of a separate audit opinion for the 2014/15 accounts is £21,000, which includes the cost of the Annual Report. This cost will be met from the Pension Fund.

If members agree to publish the report electronically then other than officer time there will be no publication costs.

Legal implications and risks:

As stated in the main report Regulation 57 of the Local Government Pension Scheme Regulations 2013/2356 requires the administering authority to produce an annual report covering a number of different aspects set out at paragraph 3 above.

Provided the statement is published by 1 December there are minimal legal risks involved.

Human Resources implications and risks:

None arise from this report.

Equalities implications and risks:

None arise from this report as this report is required to be published in order to comply with Local Government Pension Scheme Regulations 2013.

BACKGROUND PAPERS

Background Papers List

2014/2015 Statement of Accounts

Statement of Investment Principles (July 13)

Funding Strategy Statement (February 14)

Governance Compliance Statement (Nov 13)

Communications Strategy (2013 -2015)



Haverling
L O N D O N B O R O U G H

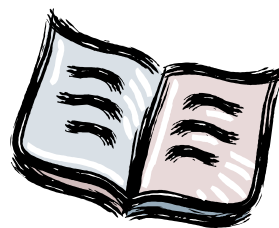
HAVERING PENSION FUND ANNUAL REPORT MARCH 2015

Pensions Regulator
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Trustee Report

Foreword to the Annual Report of the Havering Pension Fund for the year ended 31st March 2015

During the year the Pensions Committee dealt with several key issues, which are listed on pages 37-38 of the report and its members attended a number of associated training and development seminars, which are similarly listed on pages 35-36.

In addition to highlighting the work of the Pensions Committee, an overview of the activities of the Pension Administration team is contained on pages 15-18 of the report.

Members interviewed and appointed a new multi asset manager in October 2015 to replace a multi asset manager who was terminated earlier in the year. Although members have previously agreed to introduce an exposure to local infrastructure, money continues to be invested with the Fund's passive equity manager in their Sterling Liquidity Fund whilst we explore how to develop this allocation.

The Fund is invested in shares issued by companies listed on the stock exchange and on foreign exchanges and also in bonds, property funds and in cash. The value of the Fund as at 31st March 2015 was £575m, an increase on the previous year end valuation of £506m.

The overall return on the Fund's investments (over the year growth of the fund expressed in percentage terms) was 13.2%. Further information on the Fund's investment performance can be found on pages 23-25 of this report.

Stock markets are still very volatile and although the value of the Fund's assets grew during 2014/15 the impact of the rising value of liabilities gave rise to concerns for the funding level of the Fund. This concern was also borne out as the Fund undertook an inter valuation update to produce an estimated fund position as at September 2014 (mid-point of the valuation cycle). The funding level had risen from 61% to 67% but this was largely as a result of higher than expected returns and an additional cash contribution paid into the Fund by the Council in March 2014.

The Fund had a busy year implementing the new look Local Government Pension Scheme which commenced 1 April 2014.

The Local Pension Board was established in March 2015 and appointments were made to the board during June/July 2015. We look forward to working closely with the Board as it works towards achieving its primary objective, assisting the scheme manager in ensuring compliance with regulations and legislation relating to governance and administration.

I trust that this report is both clear and informative to Fund members and for the general public, but should clarification be required, or comment made, contact details are shown on page 74.



Councillor John Crowder
Chairman – Pensions Committee

INTRODUCTION

The Authority is an Administering Authority and operates a pension fund on behalf of its employees and pensioners under the provisions of the Local Government Pension Scheme Acts and Regulations. The Pension Fund is called the Havering Pension Fund (the 'Fund').

The Fund is financed by contributions from employees, employers and from profits, interest and dividends on its investments. The Fund does not form part of the Authority's consolidated accounts and has established a separate bank account.

The performance of the Fund impacts on the cost of Council services through the cost of employer contributions. However, the performance of the Fund investments will not affect pension benefits to scheme members as benefits are guaranteed by Statutory Regulations irrespective of performance.

Scheme Details

A new Career Average Revalued Earnings (CARE) Scheme being introduced from 1 April 2014.

Members of the LGPS belong to a scheme which currently provides high quality pension benefits. Since the introduction of the CARE scheme pensions build up at 1/49th of actual pensionable pay for members of the main section of the scheme and 1/98th for members who elect to be in the 50/50 section. This pension builds up on a yearly basis and is revalued in line with CPI (Consumer Price Index). For membership prior to 1st April 2014 pension is based on the best of the last three year's pensionable pay (whole time equivalent pay) and actual scheme membership (reckonable service). Because the scheme is a defined benefit scheme, members' benefits are calculated strictly in accordance with the Regulations and are not subject to changes generally affecting the fund assets. The scheme is contracted out of the State Second Pension. This means that any pension paid from the Local Government Pension Scheme must be at least equal to the GMP (Guaranteed Minimum Pension) otherwise provided by SERPS (State Earning Related Pension Scheme) to 5 April 1997.

For all leavers and retirees all pensions are increased annually in line with the CPI under the pension increase review order.

The scheme also pays a death benefit in the form of a lump sum and a pension to the spouse, civil partner or nominated cohabitee of a member who dies in service. A dependant's pension is generally also paid to the spouse, civil partner or nominated cohabitee of a member who dies after retirement, or with a deferred pension.

The scheme is open to all local authority employees (except teachers) who have their own schemes and for employees of other eligible bodies. Admitted bodies currently have "closed" membership, although the decision on whether membership is "open" or "closed" rests with the incoming employer subject to risk review for the Pension Committee. All eligible employees who have a permanent or temporary contract of three months or more are contractually enrolled in the fund from the first day of employment. Any member of the scheme can opt out by completing an opt out form available from the pension website www.yourpension.org.uk/handr. The opt out process fully complies with the Automatic Enrolment legislation which is currently being implemented when Scheme Employers reach their staging dates. A pension officer has been supporting the Automatic Enrolment process with all Scheme Employers.

A summary of the benefits of the LGPS are shown below. Further details of the specific conditions and detailed benefits can be obtained from Exchequer and Transactional Services and the Pensions website at www.yourpension.org.uk/handr.

The core benefits of the scheme are:

- A pension based on final pay and the length of service in the scheme for membership prior to 1st April 2014, plus a CARE pension based on 1/49th or 1/98th of each year actual pensionable pay for membership from 1st April 2014.
- The ability to provide a tax-free lump sum by commutation of pension. Members of the scheme prior to 1 April 2008 have a tax free lump of approximately three times the pension accrued based on service to 31 March 2008.
- Life assurance of three times the member's assumed pensionable pay.
- Pensions for spouses, civil partners, eligible cohabiting partners and eligible children.

- An entitlement paid early if a member has to stop work due to permanent ill health.
- Pensions increase in line with CPI.
- Pensions are payable from age 55, including flexible retirement.

The cost of membership:

- Employees pay a tiered contribution based on actual pensionable pay of between 5.5% and 12.5%, or half this rate for 50/50 section members.
- Employers also pay a contribution towards the pension costs. This amount is decided every three years following an independent actuarial evaluation by the Fund's Actuary. In 2014/15 the contribution rates for employers in the Havering Pension Fund range from 17.3% to 28.7% based on the valuation as at 31 March 2013.

LGPS 2014 Career Average Revalued Earnings (CARE) Scheme

The new CARE scheme was implemented on 1 April 2014. The main changes in the scheme are:

- **Pension builds up in a new way**

Each year in the new scheme the member will build up a pension equal to 1/49th of their actual pensionable pay in that year. There will also be annual inflation increases, so the pension account keeps up with the cost of living each year. The 2008 LGPS Scheme is a final salary scheme based on final full time equivalent pensionable pay at leaving with an accrual rate of 1/60th, which is calculated at the point of leaving with inflation increases added from this time. For service accrued prior to 31 March 2014, pension benefits will be calculated in line with preceding regulations.

- **Pensionable pay**

Under the CARE scheme pensionable pay includes all non-contractual overtime plus additional hours for part time staff, with employer contributions being payable on these elements as well. Previously pensionable pay excluded non-contractual overtime and additional hours.

- **Changes to the normal pension age**

For pension building up from 1 April 2014 the scheme's normal pension age will be the same as the state pension age, with 65 as the earliest age. Scheme members can find out their state pension age from www.gov.uk/calculate-state-pension.

- **More flexibility around when a member can leave and take their pension**

Members will be able to choose to leave and draw their pension anytime from age 55 – but the longer they work the more their pension will be. It will be reduced if they retire before their normal pension age and increased if they retire later.

- **Employee contribution band**

The employee contribution bands range from 5.5% to 12.5%. The applicable band for members will be based on their actual pay rather than full time equivalent, with actual pay now including non-contractual elements such as overtime.

Further details of the new scheme can be found in the factsheet link [here](#).

Management and Financial Performance Report

SCHEME MANAGEMENT AND ADVISERS

Day to day management of the Fund is delegated to the Group Director of Communities and Resources. Investment strategy and performance monitoring of the Fund is a matter for the Pensions Committee which obtains and considers advice from the Authority's officers, and as necessary from the Fund's appointed professional adviser, actuary and performance measurers who attend meetings as and when required.

The Fund also appoints a custodian for the safekeeping of the scheme's asset, such as holding share and bond certificates and cash. The custodian also produces reports on the accounting value of assets held.

The membership of the Pensions Committee reflects the political balance of the Authority and following the Local elections held in May 2014 the structure of the Pensions Committee was as follows:

Cllr John Crowder (Chair) – Conservative Group
Cllr David Johnson (Vice Chair) – UKIP
Cllr Melvin Wallace - Conservative Group
Cllr Roger Westwood – Conservative Group
Cllr John Mylod – Residents' Group
Cllr Ron Ower – Residents' Group
Cllr Linda Hawthorne – Residents' Group
Union Members (Non-voting) - John Giles (Unison), Andy Hampshire (GMB)
Admitted/Scheduled Body Representative (voting) – Heather Foster-Byron – Employer Representative

Subsequently, the Conservative Group linked with the newly formed East Havering Residents' Group to form a new coalition, and changes were made to the political balance of the Authority. Consequently the Pensions Committee members, from 22 October 2015, are as follows:

Cllr John Crowder (Chair) – Conservative Group
Cllr David Johnson (Vice Chair) – UKIP
Cllr Melvin Wallace - Conservative Group
Cllr Eric Munday – Conservative Group
Cllr Roger Westwood – Conservative Group
Cllr John Mylod – Residents' Group
Cllr Stephanie Nunn – Residents' Group
Cllr Clarence Barrett – East Havering Residents' Group
Union Members (Non-voting) - John Giles (Unison), Andy Hampshire (GMB)
Admitted/Scheduled Body Representative (voting) – Heather Foster-Byron – Employer Representative

From June 2015 Cllr John Mylod was replaced by Cllr Ray Morgan - Residents Group



Cllr John Crowder
Chair

Conservative Group



Cllr David Johnson
Vice Chair

UKIP



Cllr Melvin Wallace
Conservative Group



Cllr Roger Westwood
Conservative Group



Cllr Stephanie Nunn
Residents' Group



Cllr Clarence Barrett
East Havering Residents' Group



Cllr Ray Morgan
Residents' Group

The terms of reference for the Pensions Committee are:

- To consider and agree the investment strategy and statement of investment principles (SIP) for the Pension Fund and subsequently monitor and review performance
- Authorise staff to invite tenders and to award contracts to actuaries, advisers and fund managers and in respect of other related investment matters
- To appoint and review the performance of advisers and investment managers for pension fund investments
- To take decisions on those matters not to be the responsibility of the Cabinet under the Local Authorities (Functions and Responsibilities)(England) Regulations 2000 relating to those matters concerning pensions made under Regulations set out in Sections 7, 12 or 24 of the Superannuation Act 1972

Fund Administrator	London Borough of Havering, Town Hall, Romford, RM1 3BD
Fund Actuary	Hymans Robertson
Auditors	PricewaterhouseCoopers LLP (PwC)
Custodians	State Street Global Services
Investment Managers	Royal London Asset Management (Investment Bonds) UBS (Property) Ruffer LLP (Multi Asset) State Street (Passive UK/Global Equities) Baillie Gifford (Global Equities) Baillie Gifford Diversified Growth Fund (Multi Asset) Barings Dynamic Asset Allocation Fund (Multi Asset) from December 2013 to August 2014 GMO Global Real Return (UCITS) from January 2015
Investment Advisers	Hymans Robertson

Legal Advisers	London Borough of Havering Legal Services provide legal advice as necessary (specialist advice is procured as necessary)
Bankers	National Westminster Bank PLC
Performance Measurement	WM Company
AVC Providers	Prudential and Standard Life
Group Director of Communities and Resources	Andrew Blake-Herbert
Pension Fund Accountant	Debbie Ford
Pensions Administration Management	Sarah Bryant Director of Exchequer & Transactional Services

Employers in the Fund are as follows:

London Borough of Havering (includes non-teaching staff in schools and schools listed below under Designated Bodies)

Scheduled Bodies:

Havering College of Further Education
Havering Sixth Form College
NEW: ELUTECH College of Design and Engineering (joined 1 September 2014)

Secondary Schools:

Drapers' Academy (Academy from 1 September 2010)
Abbs Cross Academy and Arts College (Academy from 1 April 2011)
The Brittons Academy Trust (Academy from 1 April 2011)
Coopers' Company & Coborn School (Academy from 1 April 11)
The Albany School (Academy from 1 August 2011)
The Champion School (Academy from 1 August 2011)
Hall Mead School (Academy from 1 August 2011)
Sacred Heart of Mary Girls' School (Academy from 1 August 2011)
St Edward's Church of England School & Sixth Form (Academy from 1 August 2011)
Emerson Park Academy (Academy from 1 September 2011)
Redden Court School (Academy from 1 September 2011)
The Frances Bardsley Academy for Girls (Academy from 1 July 2012)
Bower Park Academy (Academy from 1 February 2013)
The Chafford School (Academy from 1 November 2013)

Primary Schools:

Upminster Junior Academy (Academy from 1 November 2012)
Upminster Infant School (Academy from 1 November 2012)
Langtons Junior Academy (Academy from 1 April 2013)
Oasis Academy Pinewood (Academy from 1 October 2013)
NEW – Drapers' Brookside Junior School (Academy from 1 June 2014)
NEW - Rise Park Infant School (Academy from 1 September 2014)
NEW – Rise Park Junior School (Academy from 1 September 2014)
NEW – Pyrgo Priory Primary School (Academy from 1 February 2015)

Admitted Bodies:

Havering Citizens' Advice Bureau
Mears (ceased 1 Sept 2014)
Sports and Leisure Management Ltd – Fitness and Health
Sports and Leisure Management Ltd – Charitable Trust
Sports and Leisure Management Ltd – Food & Beverage

KGB Cleaners
Volker (ceased 31 March 2014)
Family Mosaic (joined 1 November 2012)
Sodexo Catering (joined 1 January 2014 – pending legal agreement)
Breyer Group Repairs (joined 1 March 2014 - pending legal agreement)
Breyer Group Voids (joined 1 June 2014 – pending legal agreement)

The Havering Pension Fund also has the following bodies:

Designated Bodies:

Trust Schools

Corbets Tey Special School

Foundation Schools:

Marshall Park School (Foundation from 1 September 2011)

The Royal Liberty School

Sanders School

The Mawney School

Voluntary Aided Schools:

St Alban's Catholic Primary

St Edward's Church of England Voluntary Aided Primary School

St Joseph's Catholic Primary School

St Mary's Catholic Primary School

St Patrick's Catholic Primary School

St Peter's Catholic Primary School

St Ursula's Catholic Junior School

St Ursula's Catholic Infant School

La Salette Catholic Primary School

RISK MANAGEMENT

Overall

The Administering Authority's overall policy on risk is to identify all risks to the Fund and to consider the position both in aggregate and at an individual risk level. The Administering Authority will monitor the risks to the Fund, and will take appropriate action to limit the impact of these both before, and after, they emerge wherever possible.

Risks are identified and assessed in line with the Authority's risk management process, with risks being identified within Service Plans.

Longevity in membership of the Pensions Committee is encouraged to ensure that expertise is maintained within. The Authority recommends that the membership remains static for the elected member's term of office in order that they are fully trained in matters relating to pensions, unless exceptional circumstances require a change. There are codes of conduct in place which ensure that there is a process that considers potential conflicts of interest, with clearly identified steps to mitigate the likelihood if conflict occurs.

Risk is also identified and managed within the following statutory documents:

- Governance Compliance Statement,
- The Funding Strategy Statement
- The Statement of Investment Policy
- Statement of Accounts

These documents are reviewed on an on-going basis. Please refer to these documents in the appendices for more details on the risks identified and how these are currently managed.

Governance Risk

The Fund uses the services of an external Actuarial Adviser (Hymans) whose advice is sought in setting employer contribution rates and bond rates to mitigate the risk of the Fund not receiving the right income and financial protections for the Fund.

Investment Risk

The Fund has appointed an external Investment Adviser (Hymans) whose advice is sought on investment matters and who attends quarterly committee meetings where investment performance is reported for the Fund and for each individual fund manager.

Fund Managers

As a risk management tool, assurance is sought from the fund managers with regard to their own internal controls by reviewing their audited assurance reports (AAF 01/06 and SSAE16 ISAE 3402). Any exceptions highlighted by their auditors are evaluated by officers.

Benefits Administration

In summary, the risks relating to administration will be around the obligations to:

- Maintain accurate records;
- Pay benefits accurately; and
- Pay benefits on time as agreed with employers or under statute.
- Provide accurate and timely information on Pensions

The main areas of risk are likely to be non-payment or late payment of members' benefits, incorrect calculation of members' benefits, breach of Data Protection or failure to comply with Disclosure of Information requirements. Another growing area of risk that also needs to be assessed and managed is that of fraud. Participating in the National Fraud Initiative (NFI) is one of the ways in which pension fraud is successfully managed, together with all pension administration staff undertaking fraud awareness training and data protection training.

The impact of the above risks would be statutory fines, loss of reputation, adverse publicity and increased audit fees.

How these risks are mitigated is included in the Risk Register and Business Continuity Plan.

In line with the Local Government Pension Scheme Regulations (LGPS) and good practice the London Borough of Havering as an administering authority has developed a Pension Fund Risk Register, which can be found in an appendix to this report.

The Risk Register has been compiled with reference to the CIPFA *Managing Risk in the LGPS (2012)*, input from the Internal Audit, Insurance and Corporate Risk Manager, Risk Consultant from Zurich Municipal, Pension Fund Accountant, Corporate and Strategic Finance Manager and the Pensions Administration Project Manager.

The Risk Register identifies the key risks that the Pension Fund may face and the measures that can and have been put in place to mitigate those risks.

Seven key risks have been identified and recorded in the risk register and are summarised below:

- Inaccurate three yearly actuarial valuations - insufficient funding to meet liabilities
- Incorrect/inappropriate Investment Strategy - failure to meet strategic objectives by not reducing pension deficit
- Failure of investments to perform in line with growth expectations – potential loss of money
- Failure to comply with legislative requirements – potential litigations
- Inability to manage the Pension Fund and associated services – negative impacts upon service provision
- Failure to effectively enrol new employers/members – cash flow impacts and possible litigations

- Pension Fund payment Fraud – potential financial loss

It should be recognised that it may not be possible to eliminate all risks but accepting and actively managing risk is crucial to fulfilling the governance of the fund. All risks will be regularly reviewed to ensure that they remain appropriate and that the controls are in place to manage risks where feasible.

Risk can be classified as having two measurements that need to be assessed to determine the scale of the risk i.e.

- **Likelihood** – the possibility that a risk will occur
- **Impact** – the consequences if the risk were to occur

These measurements of risk are then scored as follows:

- **Inherent Risk Score:** The inherent risk score is the assessment of a risk in terms of impact and likelihood, without consideration of the mitigations in place.
- **Residual Risk Score:** This is the assessment of the risk, at the current point in time, having considered the mitigations in place.

The inherent and residual risk score is plotted into a matrix which shows that there are four areas of risk that have a high likelihood of occurrence and high impact.

There are a number of actions that have been identified to take forward that will improve the level of mitigations in place with the aim of reducing the likelihood, impact and the risk score.

The benefits of successful risk management are in improved financial performance, better delivery of services, improved Fund governance and compliance.

Business Continuity Plan

Services develop and maintain Business Continuity Plans, which deal with “disaster recovery” and include contingency measures. The Exchequer & Transactional Services Business Continuity Plan identifies critical activities whose failure would lead to an unacceptable loss of service, and sets out measures to minimise the risk and disruption to service.

FINANCIAL PERFORMANCE

The Pensions Committee is supported by the Administering Authority’s Finance and Administration services and the associated costs are therefore reimbursed to the Administering Authority by the Fund. The costs for these services form part of the Administrative and Investment Management expenses as reported in the Pension Fund Statement of Accounts. Estimates for the medium term on Administration and Investment Management expenses follow in this report.

The Pensions Administration service consists of an establishment of 9.1 full time equivalent posts (7.5 are in post and 1.6 posts are vacant).

The Finance service that supports the pension fund consists of an establishment of 2 full time equivalent posts (all in post).

In June 2014 the Chartered Institute of Public Finance and Accountancy (CIPFA) produced guidance on how to account for Management costs in order that improvements in cost comparisons can be made across all funds. Therefore Management costs have now been split to introduce a third category of costs. The tables that follow have now been reanalysed to include the three categories of costs as defined by CIPFA:

Administrative Expenses

Includes all staff costs associated with Pensions Administration, including Payroll.

	2013/14 Actual £000	2014/15 Estimate £000	2014/15 Actual £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
Administration & Processing	693	630	411	356	356	356
Other Fees	7	5	7	6	6	6
Other Costs	10	10	32	32	32	32
TOTAL	710	645	450	394	394	394

The Administration and Processing costs were higher in 2013/14 due to the purchase of an upgraded pension Administration system called ALTAIR from Heywood Limited. The contract is for five years but the first year costs include the implementation costs and an upfront licensing fee.

Investment Management Expenses

These costs will include any expenses incurred in relation to the management of Fund assets. Fees are calculated based on market values under management and therefore increase or reduce as the value of investments change. The investment management expenses, including fees paid to pooled fund managers can be seen in the Fund account section of this report.

	2013/14 Actual £000	2014/15 Estimate £000	2014/15 Actual £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
*Fund Manager Fees	945	953	837	900	900	900
Custodian Fees	45	45	34	35	35	35
Performance Measurement services	12	12	13	13	13	13
TOTAL	1,002	1,010	884	948	948	948

*Does not include fees payable to pooled fund managers where fees are deducted from the asset value.

Governance and Oversight

These costs include all costs that fall outside of the other two categories and include legal, advisory, actuarial and training costs. Staff costs associated with the financial reporting and support services to the Committee is included here.

	2013/14 Actual £000	2014/15 Estimate £000	2014/15 Actual £000	2015/16 Estimate £000	2016/17 Estimate £000	2017/18 Estimate £000
Financial Services	142	142	142	142	142	142
Actuarial Fees	53	10	28	20	20	20
Audit Fees	21	21	20	21	21	21
Member Training	0	0	2	10	10	10
Local Pension Board	0	0	13	25	25	25
Adviser Fees	83	50	61	50	50	50
TOTAL	299	223	266	268	268	268
OVERALL MANAGEMENT TOTAL	2,011	1,878	1,600	1,610	1,610	1,610

Please note the following regarding the above figures

- Takes no account of any inflationary increases
- Management and custody fees are charged according to the fund value; therefore an average figure has been applied for 2015/16 onwards.

- Based on 2014/15 fund and staffing structures.
- Member Training will be shared between the Pensions Committee and the Local Pension Board.

Cash Flow Management

Cash flow management is an essential part of the administration of the pension scheme as the Fund has to meet its on-going benefit payments. The Fund provides benefits for employees, which include retirement pensions, death grants and other lump sum payments.

These benefit payments can be split between the more **predictable payments**, such as monthly pension payroll or the more **unpredictable** payments such as transfer value payments, retirement lump sums or death benefits.

Income received by the Fund can be split between the more **predictable income** such as employer and employee contributions and the more **unpredictable income** such as Transfers In from other pension schemes.

The working cash balance is reviewed monthly and cash flow projections are carried out up to the end of 31 March. The cash balance is maintained so that it is not so large as to reduce the potential for future investment returns and not so small so as to create the risk that the balance will be easily exhausted and thus require disinvestments to be made frequently or at short notice.

The table below shows the cash balances split between predictable and unpredictable income and payments:

2013/14 Income	2013/14 Benefit Payments	Net		2014/15 Income	2014/15 Benefit Payments	Net
*(43.6)	*39.3	(4.3)	Predictable	(32.9)	29.4	(3.5)
(5.3)	7.5	2.2	Unpredictable	(6.0)	7.6	1.6
(48.9)	46.8	(2.1)	Total	(38.9)	37.0	(1.9)
		(3.5)	Balance b/f			(5.7)
		(5.7)	Total Cash Balance			(7.6)

*Includes additional contributions made by the London Borough of Havering to fund investment in local infrastructure which was paid into a cash account held in State Street Global Advisors sterling liquidity account.

The cash flow policy adopted by the Pension Fund sets out that should the cash level fall below the set de minimis then this should be topped up in the first instance by using investment income. In the event that cash levels rise above the set upper limit, cash will be invested in the most underweight asset allocation within the investment strategy.

The Fund's Actuary is required to report on the "solvency" of the whole Fund in a valuation which is carried out at least once every three years. As part of this valuation, the Actuary will calculate the solvency position of the whole Fund and for each employer. Therefore the Fund does not use separate forecasts for cash flows and asset values over the three year future cycles as assumptions made about the factors affecting the Fund's finances in the future (e.g. asset values and cash flows) are included in the valuation report. Cash flow and asset values are monitored regularly and reported quarterly to the Pensions Committee.

Details about the financial assumptions used by the Actuary can be found within the Valuation Report 2013, which is available on the Authority's website and can be found by selecting the link to the [Havering Pension Fund here](#).

Monitoring of pension overpayments, recoveries and amounts written off, including the results of participation in the biennial National Fraud Initiative, is being monitored regularly.

Invoices raised, and amounts recovered, since 2011/12 relating to recoverable overpayments of pension to deceased and child members of the scheme are set out in the table below.

Year debt raised	Amount of debt raised £	Debt collected £	Debt outstanding £
2009/10	262	262	0
2010/11	468	468	0
2011/12	12,659	9,575	3,084
2012/13	8,927	6,837	2,090
2013/14	5,211	1,946	3,265
2014/15	9,901	4,958	4,943
Total	37,428	24,046	13,382

The debt outstanding for 2014/15 includes £3106.42 raised in the last quarter of the year. By August 2015 this figure had reduced to £2,877.16.

The Authority has always subscribed to the National Fraud Initiative (NFI). For pensions this involves identifying any deceased members of the LGPS and any pension abatements not already known to the Pensions Administration Team. The result of this may lead to the recovery of overpayments of pension. The last exercise took place in November 2014 and the results are still being collated.

The monitoring of the payment of contributions identified two employers who made late submissions; in one case it applied to only one month and in the other case the employer has one contributing member. The value of the late contributions amounts to £31,344.27 which in percentage terms was 0.09% of the total fund contributions. Interest was not charged for the larger employer as it was a one off administrative error by their external payroll provider and therefore the interest was waived. In respect of the employer with one employee the cost of levying the interest charge outweighed the amount of interest that would have been due; however a warning has now been issued to this employer.

ADMINISTRATIVE MANAGEMENT PERFORMANCE

Pension Services Local Performance Indicators 2014/15

INDICATOR	What is it an indicator of?	Actual 2013/14	Actual 2014/15	Target 2014/15
The percentage of retirements processed within 5 working days	The percentage of retirement payments processed within 5 working days of the employee retiring or receipt of all relevant information. This indicator measures effectiveness through service delivery and is a standard throughout Local Government	86.4%	80.1%	95%
The percentage of early retirement estimates processed within 10 working days	To produce estimates for early retirements i.e. ill health, redundancies and voluntary retirements within 10 working days of request, normal retirement date or receipt of all relevant information. This indicator is particularly important to service clusters	83.9%	72.8%	91%
The percentage of notification of deferred benefits within 15 working days	To notify members who have left their job (or one of their jobs) of the deferred benefits that they have accrued at the point of leaving within 15 days of all relevant information.	63.4%	20.2%	60%
The percentage of 'Transfers In' actuals processed within 15 working days.	The percentage of transfers in with the member's record updated with the transferred in information	37.0%	13.0%	80%
The percentage of 'Transfers Out' actuals processed within 15 working days	The percentage of transfers out paid to the new pension provider	83.9%	54.8%	80%
The percentage of 'death' notifications written out to within 5 days of receipt of all information received.	The percentage of deaths with notification of benefits	67.7%	57.3%	95%
The percentage of joiners processed within 10 working days of information received	The percentage of joiners' records set up on the Pensions Administration System	64.6%	71.5%	70%

The Pension Service Local Performance Indicators represent the main core of the benefits team output but do not cover all the calculations and processes carried out by this team. The indicators do not include a substantial amount of the work carried out by the record maintenance team who effectively manage the quality of the data held, which has a direct impact upon the triennial valuation.

Performance levels this year have been impacted by the introduction of the new CARE scheme which has increased the complexity in all areas of the administration, particularly in the calculation of benefits. Additionally the late notification of regulations and calculation methodology has resulted in manual calculations having to be carried out whilst the pension system is being updated to fully comply with this legislation, which continues to evolve on a monthly basis. Therefore the time to process each case has been increased and the turnaround of cases consequently reduced. The team have been required to learn and absorb these complex changes whilst providing business as usual. The percentage performance data does not give a true reflection of the overall performance of the team and there has been no IDR (Internal Dispute Resolution Procedure) or general customer complaints.

There have been adhoc issues with the availability of the Pension Software system and hosting issues. These have now been resolved. However, due to constant changes to guidance and legislation of the 2014 scheme the system is still unable to fully comply with the changes. These are being rolled out in catch up releases and patch fixes. Also due to hosting arrangements for Altair, via the internet, it is vital the Authority's networks are stable; over the past year they have experienced some issues.

Additional priorities which impacted on the workload and performance for the team during this year included:

- Developing and testing interfaces for the new One Oracle Council Enterprise Resource Planning (ERP) system
- Robust testing of the pension administration software, resulting in high volumes of manual calculations due to the implementation of the new CARE Scheme 2014.
- Employer and scheme member presentations to support the introduction of the new CARE Scheme
- Employer meetings and workshops on new data requirements and employer responsibilities
- Review of processes and all documentation to be compliant with the new scheme and overriding legislation
- Increase in Employers and the need to support them
- Increased involvement of the administration team in the review of discretions, both Administering Authority and Employer's
- Increasing demands for specialist advice to support the ever changing way in which the Authority delivers its key services, for example partnership working and TUPE regulations
- The long term absence of a Senior Transactional Agent during the year, impacting on the workload of the rest of the Benefits Team.

In March Barnet Waddington was commissioned to review the Pensions Administration Team functions to evaluate and make recommendations via an improvement plan. It was noted there were some excellent practices in action, in particular a spreadsheet to monitor workflow. However, it was noted that staff were under pressure with a heavy workload where automation has not yet been implemented, such as member self-service, employer on-line forms, a working interface and a full workflow system which would all reduce workload and free up time to improve performance against Key Performance Indicators. They also recognised the additional work the team have had in carrying out manual calculations for the CARE scheme due to Altair's system issues in being able to process some benefits correctly while awaiting fixes.

Over the past five years trends in the key activities within the administration team are detailed below. There was a peak in the volume of work in 2013/14 due to the introduction of Automatic Enrolment and this did not reduce dramatically for 2014/15.

Service Item	2010/11 Cases	2011/12 Cases	2012/13 Cases	2013/14 Cases	2014/15 Cases
Retirements processed	237	293	273	315	261
Early retirement estimates processed	966	635	660	657	725
Notification of Deferred Benefits	219	172	653	538	243
Transfers In Actuals processed	60	60	65	54	54
Transfers Out Actuals processed	41	42	32	31	31
Death notification written out	93	93	152	158	178
New LGPS joiners processed	798	522	743	1,234	1,173
Refunds	22	48	15	29	99
TV Out & Inter Fund Adjustment (IFA) Quote	57	58	63	69	75
TV In & IFA Quote	142	86	80	70	108
Total Cases per year	2,635	2,009	2,736	3,155	2,947

Staff Resource

The Pensions Administration Team is part of oneSource Exchequer and Transactional Services and is split between two teams, the Benefits Team and the Member Record Maintenance Team. There has been some staff turnover during 2014/15; with two key members of staff leaving, the requirement to train staff recruited in the latter half of 2013/14 and successful promotion of one team member has had a significant impact on senior resource.

The team currently consists of 9.11 FTE of which 8.45 FTE is resourced. The roles are as follows:

Job Title	Number of FTE	Number of filled FTE
Specialist Transactional Team Lead	1	1
Senior Specialist Transactional Agent	3.67	3.67
Specialist Transactional Agent	0.44	0
Specialist Transactional Support Agent	1	1
Specialist Transactional Support Assistant	3	2.78

The Benefits team consists of 3 FTE Senior Transactional Agents, 0.44 FTE Specialist Transactional Agent (vacant post) and 0.5 FTE of the Specialist Transactional Support Agent.

The Member Record Maintenance Team consists of 0.67 FTE Senior Transactional Agent, 0.5 FTE Specialist Transactional Support Agent and 2.78 FTE Specialist Transactional Support Assistants (0.22 vacant post). The Senior Transactional Agent has been supporting the training and development of all the new staff recruited in the latter part of 2013/14 and supporting the development and testing of Oracle and One Oracle interfaces. As reported last year, the quality of our data was assessed as good quality data by the Pension Fund Actuaries. To quantify this, should additional work be required of the actuaries to validate/correct membership data the estimated costs to the fund could approach £20,000. Furthermore, the impact of good quality data could impact on the employer's contribution rate by as much as 1 - 2% of pay.

These two teams are managed by the Specialist Transactional Team Lead. We also have a Pensions Project Manager who works outside of the administration team concentrating on specialist projects and is working in partnership with London Borough of Newham.

As there are two areas administering the scheme we do not monitor the average cases per member of staff or staff to fund member ratios.

Pensions Administration has not participated in the CIPFA Benchmarking Club this year. The Pensions Project Manager has carried out an informal exercise to cost the administration and this equates to £26.14 per member. The review identified that the high cost recorded in the previous year was as a result of one off costs for the new pension administration system, actuary one off reports and triennial valuation costs charged in one year instead of a three year spread.

Local Government Funding Cuts

All local authorities are under pressure to make huge financial savings. Several areas of the Authority have been reviewed and restructured. This impacts on the Pension section in two ways:-

- High demand from employees for information and guidance in respect of their pension benefits should they decide to retire earlier than they initially planned or be made redundant.
- High demand from service areas for Redundancy and Early Retirement Estimates as well as guidance in the options available.

The Authority continues to look at different ways of delivering services which impacts upon the Pension Team. Demand for pension guidance for managers and employees working in areas that may be subject to change continues to escalate.

Academies and Outsourcing

The pace of conversion of schools to Academies is still continuing to have a significant effect on both the Pensions and Payroll teams due to the unique employer status of Academies. Academies need continual support and monitoring.

Outsourcing continues to add further demand on Pension Team resources and is an area not captured by performance indicators as it does not deliver a tangible, quantifiable benefit. The level of planned and actual outsourcing by Academies is still on-going and seems likely to continue to grow. This adds to the work of the Pension Team who provides the necessary data for the Actuaries to calculate Bonds and employers' rates. If the outsourced function is granted Admitted Body Status this drives further unplanned work to separate out the scheme employers and causes a further administrative burden as the number of scheme employers increases.

The growth in Scheduled and Admitted Body scheme employers also increases the support and communications requirements for the team. Introduction meetings are held with all new bodies to support their entry into the scheme with on-going meetings and support as and when required. The extension of scheme employers increases the workload for the production of annual benefit statements and the provision of information for the triennial and individual valuations. During 2014/15 there has been a net increase of 20% of new scheme employers (a net increase of six new employers).

Should the increase in scheme employers continue at the current pace the staffing resources of the team will have to be reviewed.

With all the above pressures the Pension Team has been committed to providing a good quality pension service for stakeholders, in particular scheme members. Whilst the performance levels were lower than last year there have been no complaints from Employers or Scheme Members, despite the challenges the administration team have faced with the introduction of the new CARE scheme.

Fund Membership Data

The membership of the Fund over the last five years is as follows:

	As at 31 March 2015	As at 31 March 2014	As at 31 March 2013	As at 31 March 2012	As at 31 March 2011
Contributors	6,484	6,206	5,755	5,878	6,155
Deferred pensioners	5,224	4,874	4,702	4,405	4,041
Pensioners and Dependants	5,779	5,641	5,453	5,253	5,065
	17,487	16,721	15,910	15,536	15,261

Those pensioners in receipt of enhanced benefits over the same five year period are as follows:

	As at 31 March 2015	As at 31 March 2014	As at 31 March 2013	As at 31 March 2012	As at 31 March 2011
Ill Health	15	13	14	16	12
Early Retirements	0	0	0	0	0

The age profile of members within five year bandings for the year ended 31 March 2015 is as follows:

AGE BANDS	ACTIVES	DEFERREDS	PENSIONERS (OWN RIGHT)	DEPENDANT PENSIONS	TOTAL BY AGE BAND
0-4	0	0	0	2	2
5-9	0	0	0	2	2
10-14	0	0	0	14	14
15-19	26	6	0	21	53
20-24	202	85	0	9	296
25-29	311	303	0	1	615
30-34	380	388	0	0	768
35-39	569	453	0	1	1,023
40-44	904	726	3	12	1,645
45-49	1,209	1,012	5	10	2,236
50-54	1,269	1,102	28	13	2,412
55-59	972	918	149	35	2,074
60-64	511	207	908	50	1,676
65-69	113	19	1,258	80	1,470
70-74	18	5	910	103	1,036
75-79	0	0	684	135	819
80-84	0	0	491	166	657
85-89	0	0	320	146	466
90-94	0	0	106	69	175
95-99	0	0	21	21	42
100-104	0	0	3	3	6
TOTAL	6,484	5,224	4,886	893	17,487

Contributions to the Fund

Employees who were eligible to be members of the Fund prior to 31 March 1998 were required to make contributions by deductions from earnings at the rate of 6% for officer staff and 5% for manual staff. As from 1 April 1998, all new entrants to the Fund were required to pay 6% of earnings.

With effect from 1st April 2008 instead of paying a standard contribution rate, as mentioned above, different contribution rates for different pay bands were introduced. These new rates have been designed to give more equality between the cost and benefits of scheme membership and are dependent on which pay band the member falls into. The employee contribution rates for 2014/15 range from 5.5% to 12.5% of pensionable pay.

The London Borough of Havering as a scheme employer review LGPS bandings on an annual basis each April, therefore promotions and demotions do not affect contribution rates until the following year.

The Authority is required to make balancing contributions as determined by the Fund's actuary to maintain the solvency of the Fund. The employer's contribution for the London Borough of Havering employees was 22% of salary in 2014/15 (2013/14 22%). The Authority's annual contribution is reviewed every three years. The valuation based on data as at 31st March 2013 set employer contribution rates for 2014/15, 2015/16 and 2016/17.

In 2014/15 the contribution rates due from the other employers in the Havering Pension Fund range from 17.3% to 28.7%, including payments of past service contributions.

The payment of contributions by employers with external payrolls is monitored on a monthly basis by Pensions Administration. The Authority receives a breakdown of individual employee contributions which is reconciled against the payments.

All new employers are given instruction and written guidance in the requirements of the Pension Administration team for making payments, timescales for payments and the reminder process in place. In advance of admittance to the scheme all new employers are informed of the employer contribution rates applicable and the required bond levels.

All admitted body employers are currently required to purchase a bond which protects the Fund against default payments.

The table below shows how many members were making contributions to the Fund together with the employers' contributions:

Contributing employers	Active Members	Contributions from Members £	Contributions from Employers £
London Borough Havering (including schools – non teaching staff only)	4,897	5,454,473	22,813,961
SCHEDULED BODY:			
Havering College of Further & Higher Education	291	377,886	1,374,582
Havering Sixth Form College	94	93,545	373,208
Drapers Academy	52	53,544	201,485
Abbs Cross Academy and Arts College	51	45,246	191,600
Coopers' Company & Coborn School	50	65,849	278,253
The Brittons Academy Trust	83	68,098	292,600
Sacred Heart of Mary Girls' School	50	34,038	164,608
The Champion School	94	64,867	251,255
Hall Mead School	95	66,332	288,373
St Edward's Church of England School & Sixth Form	67	73,068	281,626
Emerson Park Academy	53	55,216	215,924
Redden Court School	59	53,890	224,830
The Albany School	41	39,334	162,554
The Chafford School	35	51,045	228,377
The Frances Bardsley Academy for Girls	65	59,301	229,958
Upminster Infant School	27	9,495	44,851
Upminster Junior Academy	26	16,058	67,092
Bower Park Academy	38	38,532	156,401
Langtons Junior Academy	25	9,672	141,286
Oasis Academy Pinewood	40	14,274	50,782
Drapers Brookside Junior School	18	9,935	34,848
Rise Park Infant School	27	8,059	33,461
Rise Park Junior School	25	8,138	32,741
Prygo Priory Primary School	48	5,734	21,662
Elutec College of Design & Engineering	14	11,209	32,616
Scheduled Body Total	1,468	1,332,365	5,374,973

Contributing employers	Active Members	Contributions from Members £	Contributions from Employers £
ADMITTED BODIES:			
Sports & Leisure Management – Charitable Trust	48	60,488	157,255
Sports & Leisure Management – Fitness and Health	4	3,967	11,089
Mears – ceased 1 Sept 2014	ceased	10,755	80,638
Citizens Advice Bureau	1	2,760	36,732
KGB Cleaners	1	435	1,758
Family Mosaic	50	45,182	186,973
Breyer Group Voids	2	8,844	28,240
Breyer Group Repairs	13	20,622	72,988
Admitted Bodies Total	119	153,053	575,673
TOTAL	6,484	6,939,891	28,764,607

Investment Policy and Performance Report

INVESTMENT POLICY

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

The Authority has in place an Investment Strategy, which consists of a document split into two sections – The Statement of Investment Principles and the Myners Compliance Statement.

Statement of Investment Principles - This Statement sets out the Authority's policy on a range of matters relating to investments, including the Fund's responsible investment policies and any environmental, social and governance issues and management of the Pension Fund. This is produced in conjunction with the Fund's investment advisors. The Fund does not place restrictions on any particular types of investments. Over the longer term, the Pensions Committee requires the Investment Manager(s) to consider, as part of the investment decisions, socially responsible investment issues and the potential impact on investment performance. Beyond this, the Investment Manager(s) has full discretion with the day to day decision making.

Myners - In line with regulations the Authority, as an Administration Authority, also publishes a statement which shows the extent to which it complies with guidance as issued by the Secretary of State. Where it does not comply, reasons for non-compliance must be disclosed. This is known as the Myners Principles and is published together with the SIP.

A copy of the SIP and compliance against the Myners Principles can be found in the appendices attached to this report.

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

The movement in the asset allocations since the last annual report is shown in the table below.

Asset Class	Target Allocation as per SIP Jul 2013	Actual Asset Allocation March 2014	Actual Asset Allocation March 2015	Actual March 2015 Asset Allocation vs Target Allocation
	%	%	%	%
Equities	25	26.4	27.4	2.4
Investment Grade Bonds – Active	17	19.9	20.9	3.9
Property – Active	5	4.6	4.6	-0.4
Absolute Return Multi Asset (All classes) – Active	15	13.0	12.7	-2.3
Multi Asset Strategies	35	33.7	31.1	-3.9
Infrastructure	3	0.0	0.0	-3.0
Cash	0	2.4	3.3	3.3
Total	100	100	100	0

In line with the Statement of Investment Principles, when the Fund allocation deviates by 5% or more from the strategic allocation, the assets will be rebalanced back to within 2.5% of the strategic asset allocation. In exceptional circumstances, when markets are volatile or when dealing costs are unusually high, the Committee may decide to suspend rebalancing temporarily. Significant changes in the year were as follows:

- Following the departure of key personnel within the investment team, the Pensions Committee decided to terminate the mandate with the Multi Asset Manager (Barings - Dynamic Asset Allocation Fund) due to uncertainty around the stability of the investment team.
- On 23 October 2014 members agreed to appoint GMO and invest in their Global Real Return (UCITS) Fund (GRRUF). Trading commenced during January 2015.
- Additional contributions were made to the Fund in March 2014 which will fund a Local Infrastructure project once a scheme has been identified. A scheme has yet to be identified so the cash is still being invested in the State Street Liquidity fund.

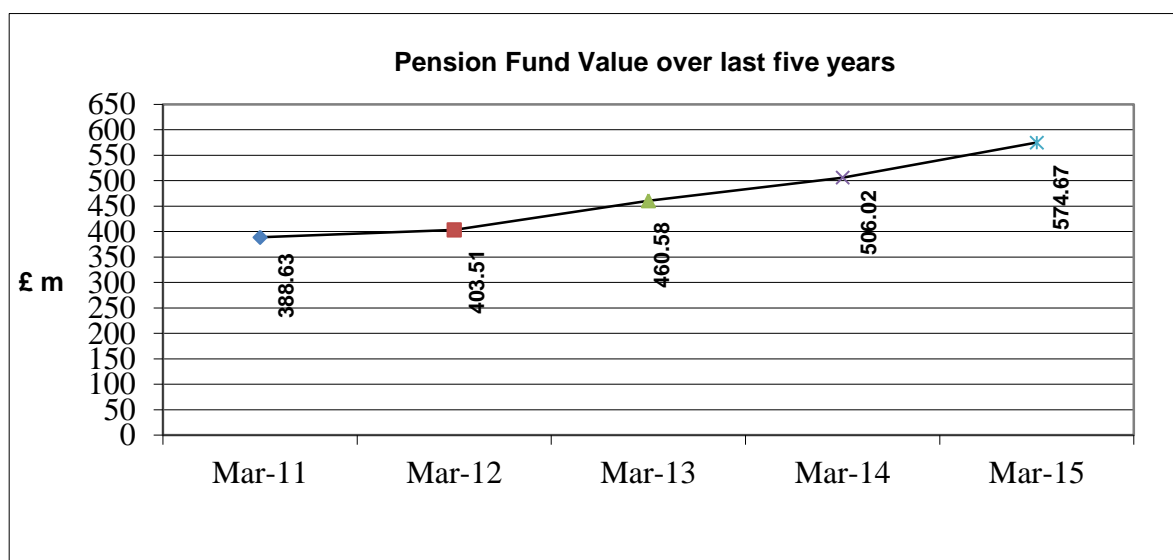
INVESTMENT PERFORMANCE

The Fund is invested in shares issued by companies listed on the stock exchange and on foreign exchanges and also in bonds, property funds and in cash.

The Net Assets of the Fund have increased to **£575m** for 2014/15 from £506m in 2013/14, a net increase of **£69m**.

The net increase of **£69m** is compiled of a change in the market value of assets of £63m, investment income of £7m, net additions of cash of £2m and offset by management expenses of (£3m). Further details are included within the Fund Account and Net Asset Statement included in this report.

The chart below shows the Fund value over the last five years



The Fund uses the services of The WM Company to provide comparative statistics on the performance of the 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 fund manager and is determined according to the type of investments being managed.

The strategic benchmark for the overall fund is a liability benchmark of FTSE A Gilts over 15 years plus 1.8% (net of fees) p.a. (This is the rate used in the valuation of the Fund's liabilities).

The main factor in meeting the strategic benchmark is market performance. The main factor in meeting the tactical benchmark is fund manager performance.

In 2014/15, the overall return on the Fund's investments was 13.2% (2013/14 7.0%). This represented an out performance of 1.7% against the tactical benchmark (2013/14 2.0%) and an under performance of -12.9% against the strategic benchmark (2013/14 7.0%). The following table shows the overall net performance of the Fund:

	<u>1 year to</u> <u>31.03.14</u> %	<u>1 year to</u> <u>31.03.15</u> %	<u>3 Years to</u> <u>31.03.15</u> %	<u>5 years to</u> <u>31.03.15</u> %
Fund Return	7.0	13.2	11.5	8.9
Tactical Benchmark	4.9	11.3	9.5	8.4
Performance	2.0	1.7	1.8	0.5
Fund Return	7.0	13.2	11.5	8.9
Strategic Benchmark	0.0	29.9	13.0	14.8
Performance	7.0	-12.9	-1.4	-5.1

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

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 strategic benchmark measures the extent to which the Fund is meeting its longer term objective of reducing the Fund's deficit. This current shortfall is driven by the historically low level of interest rates which drive up the value of Gilts (and consequently the level of the Fund liabilities). Whether interest rates will remain at those levels for the longer term and the implications for the Fund's Investment Strategy is a matter which will need to be considered at the time of the next actuarial review.

Our Investment Advisers have stated that there are things that could have been done to protect the Fund against falling interest rates (e.g. hedging) but they do not believe that this action would have been appropriate. The Fund is already partially protected through its investments with Royal London and given the long term nature of the Fund they believe that the Fund objective of pursuing a stable investment return remains appropriate. They also note that although the value placed on the liabilities has risen as a result of falling yields, inflation and expectations of future inflation have fallen meaning that the actual benefit cash flows expected to be paid from the Fund will be lower.

Where appropriate, Fund Managers have been set a specific (tactical) benchmark as well as an outperformance target against which their performance is measured.

Fund Manager performance is measured against benchmarks and targets as follows:

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	<ul style="list-style-type: none"> 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
Baillie Gifford – Diversified Growth Fund 15%	Multi Asset	UK Base Rate +3.5%	To outperform the benchmark
GMO Global Real Return (UCITS) 20%	Multi Asset	UK Base Rate +3.5% over the medium to long term	To outperform the benchmark

The following table compares each Fund Manager performance against their benchmark and their performance target for the twelve months ending 31 March 2015:

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark	Target	Performance vs Target
Royal London	20.4	21.5	-1.1	22.2	-1.8
UBS	19.1	16.6	2.4	16.6	2.4
Ruffer	11.5	0.6	10.9	0.6	0.6
SSgA	19.0	19.0	0.0	19.0	0.0
SSgA Sterling Liquidity Fund	0.5				
Baillie Gifford (Global Alpha Fund)	19.0	19.0	0.0	21.5	-2.5
Baillie Gifford (DGF)	7.9	4.0	3.9	4.0	3.9
GMO (GRRUF)	n/a	n/a	n/a	n/a	n/a

Source: WM Company, Fund Managers and Hymans

- GMO (GRRUF) performance is not shown as they were not invested for entire period.
- Totals may not sum due to geometric basis of calculation and rounding.

Performance against benchmark is measured at Fund Manager level. Performance is not measured against the asset classes as mandates allocated to Fund Managers mainly match the asset classes.

WM also produces performance summaries for the Local Authority Universe that comprises of 85 LGPS pension funds.

The average return over the 12 months to 31 March 2015 for the WM Local Authority universe was 13.2% (2013/14 6.4%). The Havering Pension Fund was at the 46th percentile in 2014/15 (2013/14 35th).

WM data	2014/15	2013/14	2012/13
Fund Return	13.2	7.0	14.6
Benchmark (WM Universe)	12.9	6.4	13.8
Relative Return	0.3	0.6	0.7
WM Ranking	46	35	32

Asset Allocation

The Fund Managers and the market value of assets under their management at 31 March 2015 were as follows:

Manager	Mandate	Value £000	Proportion of Total Fund %
Royal London	Active Investment Grade Bonds	119,855	21.1
UBS	Active Property	26,671	4.7
Ruffer	Multi Asset Absolute Return	72,851	12.8
State Street Global Assets	Passive UK/Global Equities	55,502	9.8
State Street Global Assets	Sterling Liquidity Fund	11,682	2.0
Baillie Gifford	Pooled Global Equities	101,846	18.0
Baillie Gifford DGF	Multi Asset	76,732	13.5
Barings	Multi Asset	17	-
GMO	Multi Asset	101,882	18.0
	Other	51	0.1
	Total Fund	567,089	100.0

Largest 10 Direct Asset Holdings of the Total Fund Value:

<u>Holdings</u>	<u>Market Value at 31 March 2015</u> £m	<u>Proportion of the total investment of the fund</u> %
Cash – foreign currency	8.11	1.43
UK Treasury Index Linked Bond 0.75% - matures 2034	6.33	1.12
UK Treasury Index linked Bond 0.125% – matures 2024	5.17	0.91
UK Treasury Index Linked Bond 0.5% - matures 2050	4.43	0.78
UK Treasury 3.25% – matures 2044	4.34	0.77
UK Treasury Index linked Bond 1.25% – matures 2017	3.89	0.69
UK Treasury 0.25% - matures 2052	3.53	0.62
UK Treasury Index Linked Bond 0.125% - matures 2019	3.30	0.58
UK Treasury Index linked Bond 0.25% - matures 2052	3.12	0.55
UK Treasury Index linked Bond 0.625% - matures 2042	2.63	0.46
Total	44.85	7.91

In addition to the above holdings the Fund also invests in a number of pooled mandates, the largest as follows:

<u>Holdings</u>	<u>Market Value at 31 March 2015</u> £m	<u>Proportion of the total investment of the fund</u> %
GMO – Global Real Return (UCITS) Fund	101.88	17.98
Baillie Gifford Global Equities	101.85	17.98
Baillie Gifford Diversified Growth Fund	76.73	13.55
State Street Passive Equities	55.50	9.80
UBS Pooled Property	26.34	4.65
Total	362.30	63.96

Funding Strategy Statement (FSS) - The Authority also has in place a Funding Strategy Statement (FSS) which was reviewed during 2013/14. The FSS is reviewed in detail at least every three years as part of the Fund's triennial valuation. This statement was reviewed during the revaluation process which commenced using data as at 31 March 2013 and the results published by no later than 31 March 2014.

The FSS was prepared by the Administration Authority in collaboration with the Fund's Actuary, Hymans Robertson and after consultation with the Fund's employers. The draft version of the Funding Strategy Statement was distributed to all participating employers and the consultation ended on 25 March 2014.

The FSS sets out the objectives of the London Borough of Havering Pension Fund's funding strategy and includes a summary of the Fund's approach to funding its liabilities and is effective from **1 April 2014**.

As part of the application of the FSS the Havering Pension Fund holds insurance bonds to guard against the possibility of admitted bodies not being unable to meet their pension obligations. These bonds total £4.2m 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.

The Pensions Project Manager, in collaboration with the Fund's Actuary has produced a draft Admissions Policy. The Admissions Policy covers acceptance, on-going treatment and cessation of admitted bodies. This is to ensure that a considered and consistent approach to the admission of new employers to the Fund can be followed. This draft policy has been completed and is awaiting clearance from our Internal Legal Section. Following clearance it will be presented to the Pensions Committee for adoption.

Investment Administration and Custody

The Fund uses the services of State Street Bank who are the Fund's appointed custodians. They operate a wide range of services but are mainly responsible for the safekeeping and custody of the Fund assets and are responsible for Investment Accounting and Reporting. They ensure that accurate records and certificates of the ownership of stock are maintained and ensure that dividend income and other distributions are received appropriately. They also keep a record of the book costs in the various asset classes and provide a market valuation of the Fund. It is State Street's records that are used to produce the investment balances in the Fund's accounts.

Fund Manager performance is reported to the Pensions Committee on a quarterly basis. 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 are the pooled Managers (SSgA, UBS, Baillie Gifford and GMO) and Ruffer who 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 will be made for additional presentations.

The Fund's investment advisors attend the quarterly Pensions Committee meetings and also produce a quarterly report, including fund manager performance and market commentary.

The Fund subscribes to the CIPFA Pensions Network, which aims to support pension practitioners and is dedicated to pension fund bodies, offering services in relation to investment, audit, accounting, administration and governance.

Voting activity exercised by the Fund managers is included in their quarterly reports and these are made available for the Pensions Committee to consider.

Scheme Administration Report

OVERVIEW

As mentioned in the Financial Performance section, the Scheme is administered by the Administering Authority's Pension Administration Team (as part of oneSource Exchequer and Transactional Services) and Finance (as part of oneSource Finance). The associated costs are therefore reimbursed to the Administering Authority by the Havering Pension Fund. The costs for these services form part of the Administrative and Investment Management expenses as reported in the Pension Fund Statement of Accounts. The data maintained and procedures are subject to internal and external annual audits and no material issues have been identified.

The Authority's Pension Administration section is responsible for all aspects of the Scheduled (including Academies) and Admitted Body scheme membership including payment of benefits, processing joiners and leavers, record amendments, scheme employers' returns, monitoring and administration of the Authority's Additional Voluntary Contributions (AVC) scheme. The Administration section is also responsible for ensuring the governance processes relating to pensions arising from scheme employer TUPE activities are in place, including reporting to Committee.

The key day to day functions of the Pensions Administration Team are:

- Processing new members of the scheme
- Dealing with requests from members who wish to transfer their pension into or out of Havering's Fund
- Administering death benefits for scheme members
- Bringing pensions into payment on retirement or early retirement
- Providing estimates for members/managers
- Assisting members who wish to increase their pension provision through AVCs or ARCs (replaces added years and is to provide added pension)
- Processing leavers with a refund of contributions or deferred benefits
- Updating the pensions computer system with changes to members' details
- Reviewing and monitoring third tier ill-health retirements
- Monitoring and recording Scheduled and Admitted Body contributions for bodies that do not utilise the Havering payroll
- Utilising information technology to improve service standards and efficiency
- Supporting outsourcing for both the Authority and other Scheduled Employers such as the Academies
- Contributing to national policy formulation on pensions to reflect the Authority's preferred approach
- Bi-annual National Fraud Initiative (NFI) compliance
- Ensuring continual data cleansing in preparation for the next scheme valuation
- Preparation for the new scheme governance requirements of The Pension Regulations
- Reviewing all processes and procedures to embed the new 2014 scheme changes
- Training and develop staff to meet service and Authority objectives

Key Uses of Technology

The Havering Pension Fund currently uses the ALTAIR hosted pension system. It is still being updated to incorporate the CARE scheme 2014 and legislative changes. The team are supporting the change to the CARE scheme 2014, the continued expansion of scheme employers, the preparation for the Single Tier Pension and Guaranteed Minimum Pension review, implementing member self service, and developing the workflow module, all of which significant impacts upon team resources.

The aspiration of the pension administration team is to implement member self service. There are also plans to procure a pension system add-on which interfaces with employer systems, together with providing management tools for managing team workflow. The benefits of self service and improved data interfacing are that team members will be able to prioritise work that delivers added value and meet performance targets and save valuable time from data input.

The Havering Pension Fund has continued to have a joint pension website with the London Borough of Redbridge for Scheme members and Employers and this was recently updated to include the London Borough of Newham.

This website holds information on the LGPS including previous newsletters, a scheme guide and various factsheets. A review of functionality of the website has led to website improvements, and work on incorporating member self service access to members' own pension records will be developed at a later stage. Improvements during this year have included updating the website for the new CARE scheme including pension modellers and links to .GOV.UK regarding the changes to the new single tier state pension. Work continues to develop the website taking on board member's feedback.

Internal Dispute Resolution Procedure (IDRP)

Any internal disputes go firstly to the Authority's Actuaries and then to the Pensions Panel which comprises the Director of Human Resources/Organisational Development, Director of Legal and Governance and the Corporate Finance & Strategy Manager. The Team Leader for Pensions Administration sits on the panel in an advisory role.

There were no cases taken to IDRP in 2014/15.

Whistle Blowing

The Pension Fund complies with the whistle blowing requirements of the Pension Act that came into force on 6 April 2005. It urges anyone to inform the correct authorities of any known wrong doings. The process for reporting breaches of the law to the Pensions Regulator can be found on the Authority's website by selecting the link here [Havering Pension Fund](#).

No breaches were reported during 2014/15.

Actuarial Report

London Borough of Havering Pension Fund (“the Fund”) Actuarial Statement for 2014/15

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2014/15. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority’s Funding Strategy Statement (FSS). 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’/dependants’ 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 to 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 the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers 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 20 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 31 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:

Financial assumptions	31 March 2013	
	% p.a. Nominal	% p.a. Real
Discount rate	4.80%	2.30%
Pay increases	3.30%	0.80%
Price inflation/Pension increases	2.50%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the 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 summarised below:

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

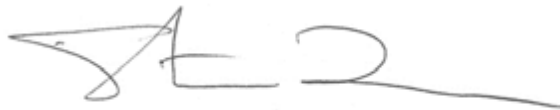
*Currently aged 45

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from London Borough of Havering, the Administering Authority to the Fund.

Experience over the period since April 2013

Experience has been mixed over the two years to 31 March 2015 (excluding the effect of any membership movements). Real bond yields have fallen dramatically and the effect of this has been offset by the effect of strong asset returns, meaning that funding levels are likely to have increased marginally over this period.

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



Steven Law FFA

Fellow of the Institute and Faculty of Actuaries
 For and on behalf of Hymans Robertson LLP
 19 May 2015

Hymans Robertson LLP
 20 Waterloo Street
 Glasgow

The Fund's Actuary carried out a triennial valuation based on data as at 31 March 2013. The main purpose of the valuation is to set employer contribution rates for 2014 to 2017 and also to calculate the funding position within the Fund. The valuation prior to this date was undertaken at 31 March 2010.

Details about the financial assumptions used by the Actuary can be found within the Valuation Report 2013, which is available by selecting the link here [Havering Pension Fund](#).

In accordance with the Fund's Funding Strategy Statement the Actuary also carried out an inter-valuation update. This funding update is provided to illustrate the estimated development of the funding position from 31 March 2013 to 30 September 2014.

Summary

Valuation date	31 March 2010	31 March 2013	Estimated Inter - valuation 30 Sept 2014
Total Liabilities	£589m	£752m	£792m
Market Value of Assets	£361m	£461m	£529m
Surplus/(deficit)	(£228m)	(£291m)	(£263m)
Funding Level	61.3%	61.2%	66.8%

The above table shows that whilst the 2013 funding level has not changed from 2010 the value of the deficit has increased. This is primarily driven by the change in the value of the liabilities which has been calculated on a set of assumptions used by the Fund's Actuary. The asset returns were higher than expected but not enough to offset the growth in liabilities.

As the table shows, as at 30 September 2014, the funding level has increased to 66.8%. This is largely as a result of higher than expected investment returns and an additional cash contribution paid into the Fund by the Authority in March 2014. The funding update does not allow for changes in individual members' data since the 2013 valuation, so the accuracy of this calculation is expected to decline over time as the period since the last valuation increases.

The Fund monitors each employer's ill health experience on an on-going basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance, the employer will be charged additional contributions.

Employer decisions on the application of discretions can give rise to strain costs being payable by the employer to the Pension 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 member's 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.

Generally where a strain cost 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. This is monitored and reconciled to data issued by the pension administration section to ensure appropriate strain costs are paid into the Fund.

Governance Compliance Statement

Governance Compliance Statement

Under Regulation 31 of the Local Government Pension Scheme (Administration) Regulations 2008 and Regulation 55 of the LGPS Regulations 2013, administering authorities are required to prepare, publish and maintain statements of compliance against a set of practice principles on scheme governance and stewardship.

The Governance Compliance Statement sets the following:

- Arrangements for delegation of decisions regarding the Fund
- Terms, structure and procedures of the delegation
- Frequency of meetings
- Whether there are representatives of employing authorities

The compliance principles are not mandatory but suggested best practice; however the Fund must explain the reasons for non compliance, if applicable, in the statement.

This statement can be found in the appendices at the back of the report.

The Governance Compliance statement is also available on the Authority's website by selecting the link here [Havering Pension Fund](#)

Training and Development

In January 2010 CIPFA launched as good practice guidance a Knowledge and Skills Framework that Pension Funds could voluntarily adopt as a useful tool in identifying the knowledge and skill levels and development needs of officers and members of their decision making bodies.

As part of ongoing developments of the framework CIPFA then produced a Code of Practice in October 2011 with its application commencing from the financial year beginning 1 April 2012. This was updated in July 2013 to reflect the Public Service Pensions Bill and the updated Code of Practice takes effect for financial years beginning on or after 1 April 2014.

CIPFA's Knowledge and Skills Framework covers six relevant areas of knowledge for members of decision making bodies, namely:

1. Pensions Legislative and Governance Context.
2. Pensions Accounting and Auditing Standards.
3. Financial Services Procurement and Relationship Management.
4. Investment Performance and Risk Management.
5. Financial Markets and Products Knowledge.
6. Actuarial Methods, Standards and Practices.

The London Borough of Havering, as an Administering Authority of the LGPS, recognises the importance of ensuring that it has the necessary resources to discharge its pensions administration responsibilities and that all staff and members charged with financial administration, governance and decision making with regard to the pension scheme are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.

It therefore seeks to utilise individuals who are both capable and experienced and it will provide and/or arrange training for staff and members of the pensions decision making and governance bodies to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

As the majority of training and development is cyclical in nature, spanning the four year membership of the committee, the Authority's Constitution recommends that the membership of the committee

remains static for the life of the Authority unless exceptional circumstances require a change, for the very reason that Members need to ensure that expertise is developed and maintained within.

In recognition of the importance of member training in pension matters the Authority's Constitution was amended in March 2012 to reflect that if members do not undertake required training then that member may not partake in the decision making process.

It is important that all the Members of the Committee are adequately trained and briefed to make effective decisions and those members are aware of their statutory and fiduciary responsibilities and achieve the terms of reference of this Committee which are:

- To consider and agree the investment strategy and statement of investment principles (SIP) for the pension fund and subsequently monitor and review performance
- Authorise staff to invite tenders and to award contracts to actuaries, advisers and fund managers and in respect of other related investment matters
- To appoint and review the performance of advisers and investment managers for pension fund investments
- To take decisions on those matters not to be the responsibility of the Cabinet under the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 relating to those matters concerning pensions made under Regulations set out in Sections 7,12 or 24 of the Superannuation Act 1972.

Following the Local Authority elections in 2014, new member inductions took place for newly elected members on 24 June 2014 prior to their first Pensions Committee meeting. Knowledge and Skills self-assessment forms were also distributed to the new Pensions Committee.

Due to changes to the LGPS (Amendment) (Governance) Regulations 2015 requiring Administering Authorities to establish a Local Pension Board (LPB) by no later than 1 April 2015 and a number of politically led decisions to change some of the members on the Pensions Committee, further induction training was put on hold pending appointments to the LPB.

Guidance issued by the Shadow Scheme Advisory Board in January 2015 states that the Administering Authority should make appropriate training available to assist LPB members in undertaking their role. It was always the plan, to adopt a training strategy that will incorporate Pension Committee member training with LPB members to keep officer time and training costs to a minimum.

Appointments to the LPB were finalised in June 2015 and training will be resumed for both Pension Committee and LPB members.

A joint training strategy is currently being developed and will be presented to the Pensions Committee and LPB in September 2015 (LPB meeting dates not yet confirmed).

The Fund will aim for full compliance with CIPFA's Knowledge and Skills Framework and Code of Practice to meet the skill set within the framework.

Associated training and development will be given when required which will be linked to the Pension Fund meeting cyclical coverage for 2015/16.

Training and development took place during 2014/15 to ensure that Members of the Committee were fully briefed in the decisions they were taking at the time and a log of training and development is maintained and follows this statement.

Members also receive briefings and advice from the Fund's investment adviser at each committee meeting.

The Fund uses the three day training courses offered by Local Government Employers (LGE) which is specially targeted at elected members with Pension Fund responsibilities. All new members are encouraged and given the opportunity to attend.

The Fund is a member of the CIPFA Pensions Network which gives access to an extensive programme of events, training/workshops, weekly newsletters and documentation, including briefing notes on the latest topical issues.

The Pension Fund Accountant also attends quarterly forum meetings with peers from other London Boroughs; this gives access to extensive opportunities of knowledge sharing and benchmarking data.

Officer training and personal development is monitored through the Authority's internal appraisal process.

Training logs are maintained and attendance and coverage in summarised in the table that follows:

Pensions Committee Member Training and development 2014/15:

DATE	TOPIC COVERED	ATTENDED BY
24 June 2014	<p>Pension induction - Officer covered :</p> <ul style="list-style-type: none"> ○ Brief overview of the Havering Pension Fund ○ How the scheme is funded ○ Governance structure ○ Key parties in the Fund ○ Investment monitoring ○ Strategy documents <p>Hymans Actuary covered :</p> <ul style="list-style-type: none"> ○ Role of the actuary ○ Introduction to actuarial valuations ○ Valuing liabilities ○ 2013 valuation results <p>Hymans Investment Adviser covered:</p> <ul style="list-style-type: none"> ○ Role of investment consultant ○ Drivers and influences on investment decision making ○ Existing mandates within current investment strategy 	<p>Cllr John Crowder (chair) Cllr David Johnson (vice chair) Cllr Roger Westwood (late)</p>
09 July 2014	London Pensions CIV – briefing for members	Cllr John Crowder (chair) (only one place available)
16 September 2014	Pension Fund accounts briefing	Cllr John Crowder (chair) Cllr Melvin Wallace Cllr Roger Westwood John Giles (UNISON)
07 October 2014	CIPFA - "Managing change in the LGPS"	Cllr John Crowder (Chair) (limited pre-paid places – offered to chair only)
28 October 2014 25 November 2014 16 December 2014 (This is a three day course)	<p>Local Government Association doing Trustee Training Fundamentals:</p> <ul style="list-style-type: none"> • Day 1 (28 Oct 2014) <ul style="list-style-type: none"> ➢ LGPS framework (past and present) ➢ Investment framework ➢ Delivering the service ➢ Traditional asset classes 	Cllr John Crowder (chair) Cllr Stephanie Nunn
	<ul style="list-style-type: none"> • Day 2 (25 Nov 2014) <ul style="list-style-type: none"> ➢ Valuations ➢ Funding Strategy Statements ➢ Corporate governance ➢ Communication strategies/policies ➢ Established alternative investments 	Cllr John Crowder (chair) Cllr Stephanie Nunn
	<ul style="list-style-type: none"> • Day 3 (16 Dec 2014) <ul style="list-style-type: none"> ➢ Duties and responsibilities of committee members ➢ The future for LGPS ➢ New governance arrangement ➢ Bringing it all together 	Cllr John Crowder (chair) Cllr Stephanie Nunn

DATE	TOPIC COVERED	ATTENDED BY
06 November 2014	Baillie Gifford – Diversified growth seminar	Cllr Melvin Wallace
12 November 2014	CIPFA – “Pensions Annual Conference”	Cllr John Crowder (chair) (limited pre-paid places - offered to chair only)
18 November 2014	Govtoday – “Future of the LGPS”	Cllr John Crowder (Chair) Cllr David Johnson (vice chair) (only three places available)
26 January 2015	Charles Stanley – “ can the LGPS be dynamic and passive”	Cllr Stephanie Nunn

Attendance at Pensions Committee meetings:

All of the Pensions Committee agendas and minutes can be found on the Authority's website by selecting the link here [Havering - Committee details - Pensions Committee](#)

The Committee met a number of times during 2014/15 and the coverage and attendance at those meetings are shown in the following table:

DATE	TOPIC	ATTENDED BY
27 June 2014	<ul style="list-style-type: none"> Pension Fund Performance Monitoring for the quarter ending 31 March 2014, received presentations from Ruffer (Multi Asset Absolute Return Manager) and Baillie Gifford (Global Equity Manager) and (Diversified Growth Fund Manager). Noted changes to the Pensions Regulations from 1 April 2014 and to delegate the setting of Scheme Employer Discretions to officers. 	Cllr John Crowder (chair) Cllr David Johnson(vice chair) Cllr Roger Westwood Cllr Clarence Barrett (sub for John Mylod) Cllr Linda Hawthorne Cllr Stephanie Nunn (sub for Ron Ower) John Giles (UNISON) Heather Foster-Byron (employer representative)
23 September 2014	<ul style="list-style-type: none"> Pension Fund Performance Monitoring for the quarter ending 30 June 2014, received presentations from Royal London (Bonds Manager) and UBS (Property Manager). Noted Pension Fund Accounts for the year ending 31 March 2014. Considered and noted the external auditor's report (ISA260) for the Pension Fund and Officers' response to issues raised. Noted the final employer discretion decisions and Policy Statement for Havering. Noted the draft charging policy and noted the Pensions Administrative Team work plan for 2014/15. Approved the revised Administering Authority's Statement of policies and discretions and delegations. Noted the Local Government Governance reforms and agreed to set up an officer working party to establish the creation of a Local Pension Board. Agreed to undertake the procurement of the Fund's actuarial service provider and agreed to delegate this to officers. 	Cllr John Crowder (chair) Cllr Melvin Wallace Cllr Roger Westwood Cllr Linda Hawthorne Cllr Ron Ower John Giles (UNISON) Heather Foster-Byron (employer representative)
23 October 2014 (SPECIAL)	<ul style="list-style-type: none"> Multi Asset Manager Selection Interviews - 1/2 day event. 	Cllr John Crowder (chair) Cllr David Johnson(vice chair) Cllr Melvin Wallace Cllr Meg Davis (sub for Roger Westwood) Cllr Stephanie Nunn (sub for John Mylod) John Giles (UNISON) Heather Foster-Byron (employer representative)
25 November 2014	<ul style="list-style-type: none"> Noted the views of officers on the performance of the Fund's Custodian for the period October 2013 to September 2014. Noted the views of officers on the performance of the Fund's Investment Adviser for the period September 2013 to September 2014. Noted the results of the Whistle Blowing Annual Review and that no breaches had been 	Cllr John Crowder (chair) Cllr David Johnson(vice chair) Cllr Melvin Wallace Cllr Roger Westwood Cllr Stephanie Nunn Cllr Clarence Barrett John Giles (UNISON) Chris Pearson (sub for Andy Hampshire)

DATE	TOPIC	ATTENDED BY
	<p>reported</p> <ul style="list-style-type: none"> • Considered and agreed changes as necessary to the Governance Compliance Statement. • Agreed the Pension Fund Annual Report for the year ending 31 March 2014. 	
16 December 2014	<ul style="list-style-type: none"> • Pension Fund Performance Monitoring for the quarter ending 30 September 2014, received presentations from Baillie Gifford (Global Equity Manager) and (Diversified Growth Fund Manager). • Noted the Havering Pension Fund funding update as at 30 September 2014. 	Cllr John Crowder (chair) Cllr David Johnson(vice chair) Cllr Melvin Wallace Cllr Roger Westwood Cllr Stephanie Nunn Cllr Clarence Barrett Heather Foster-Byron (employer representative)
17 March 2015	<ul style="list-style-type: none"> • Pension Fund Performance Monitoring for the quarter ending 31 December 2014, received presentation from Royal London (Bonds Manager), UBS (Property Manager) and State Street Global Assets (UK/Global passive equities manager). • Considered whether to recommend to Council to seek membership of the Collective Investment Vehicle (CIV) • EXEMPT – Considered whether to amend the fund’s equity strategy, to reflect a change in passive indices. 	Cllr John Crowder (chair) Cllr David Johnson(vice chair) Cllr Melvin Wallace Cllr Roger Westwood Cllr John Mylod Cllr Stephanie Nunn Cllr Clarence Barrett John Giles (UNISON)

The Havering Pension Fund adopts a Business Plan/Report on the work of the Pensions Committee which sets out the work undertaken by the Committee during 2014/15 and the plan of work for the following year (2015/16). This also includes a Training and Development Plan which is linked to the Pension Fund coverage of meetings.

Full coverage of the Pensions Committee work and training plan can be found on the Authority’s website by selecting the link here [Havering Pension Fund](#).

CONFLICT OF INTEREST

At the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda. During 2014/15 there were no conflicts of interests declared.

Fund Account, Net Asset Statement

Pension Fund Account for the year ended 31 March 2015

Restated 2013/14 £000		Note	2014/15 £000
Contributions and benefits			
45,007	Contributions	7	35,704
2,258	Transfers in from other pension funds	8	1,573
47,265			37,277
(32,387)	Benefits	9	(33,499)
(1,129)	Payments to and on account of leavers	10	(1,506)
(2,985)	Management expenses*	11	(3,334)
(36,501)			(38,339)
10,764	Net (withdrawals) / additions from dealings with members		(1,062)
Returns on investments			
9,279	Investment income	13	6,651
25,401	Profit and losses on disposal of investments and changes in the market value of investments*	15	63,061
34,680	Net returns on investments		69,712
45,444	Net increase in the net assets available for benefits during the year		68,650
460,575	Net assets of the Fund at start of year		506,019
506,019	Net assets of the Fund at end of year		574,669

Net Asset Statement as at 31 March

2014 £000		Note	2015 £000
501,812	Investment Assets	15	567,992
(1,036)	Investment Liabilities	15	(903)
7,854	Current Assets	21	8,339
(2,611)	Current Liabilities	22	(759)
506,019	Net assets of the Fund available to fund benefits at end of the year		574,669

*2013/14 figures have been restated to reflect the treatment of management and investment expenses as per CIPFA LGPS management costs guidance

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 Description of the Fund

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 Communities and 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 2014/15 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 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 1 April 2014 which will see retirement benefits based on a Career Average Revalued Earnings (CARE) scheme. Members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with Consumer Price Index.

The Fund is financed by contributions from employees, employers and from profits, interest and dividends on its investments. Contributions are made by active members of the Fund in accordance with LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the year ended 31 March 2015. Employer contributions are set based on triennial actuarial funding valuations. The last valuation was 31 March 2013. Employer contribution rates range from 17.3% to 28.7% of pensionable pay.

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.

There are 35 employer organisations within the Havering Pension Fund including the Authority. During 2014/15 four primary schools converted to Academies and a new College became new employers to the Fund (see pages 8 & 9 for list of employers).

2 Basis of Preparation

The Financial Statements have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

3 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 8 and 10)

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 is 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) Management Expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Authority discloses its pension fund

management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs*.

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.

Oversight and Governance Costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight is charged to the Fund. Associated management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy.

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

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.

Net Assets Statement

(g) 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 the closing bid price if both the bid and offer prices are published; or if single priced, at the closing single price.

(h) 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.

(i) 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.

(j) 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.

(k) 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.

(l) 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.

(m) 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 23)

4. 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 IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 19. This estimate is subject to significant variances based on changes to the underlying assumptions.

5. 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 2015 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: <ul style="list-style-type: none"> • 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 3% • 0.5% increase in the pension increase rate could result in an increase of 7%

6. Events after the Reporting Date

None

7. Contributions Receivable

2013/14 £000		2014/15 £000
	Employers	
	Normal:	
11,941	Havering	12,470
3,672	Scheduled Bodies	5,127
681	Admitted Bodies	576
	Deficit funding:	
21,590	Havering	*10,056
	Augmentation:	
493	Havering	288
77	Scheduled Bodies	248
20	Admitted Bodies	-
38,474	Employer Total	28,765
	Members	
	Normal:	
5,154	Havering	5,401
1,113	Scheduled bodies	1,323
190	Admitted bodies	152
	Additional contributions:	
66	Havering	53
9	Scheduled bodies	9
1	Admitted bodies	1
6,533	Members Total	6,939
45,007		35,704

*The £10.06m deficit funding reflects additional contributions made by the Authority to the Pension Fund. It consists of £5.9m past service contribution as a cash amount and £4.16m planned contributions.

8. Transfers in from Other Pension Funds

2013/14 £000		2014/15 £000
2,258	Individual transfers in from other schemes	1,573

9. Benefits Payable

2013/14 £000		2014/15 £000
	Pensions	
24,975	Havering	26,137
664	Scheduled Bodies	782
431	Admitted Bodies	482
26,070	Pension Total	27,401
	Commutation and Lump Sum Retirements	
5,060	Havering	4,997
472	Scheduled Bodies	471
343	Admitted Bodies	208
5,875	Commutation Total	5,676
	Lump Sum Death Benefits	
380	Havering	410
42	Scheduled Bodies	85
20	Admitted Bodies	(73)
442	Death Benefits Total	422
32,387		33,499

10. Payments To and On Account of Leavers

2013/14 £000		2014/15 £000
2	Refunds to members leaving service	68
1,127	Individual transfers to other schemes	1,438
1,129		1,506

At the year end there are potential liabilities of a further £0.7m in respect of individuals transferring out of the Pension Fund upon whom the Fund is awaiting final decisions.

11. Management Expenses

*2013/14 £000		2014/15 £000
710	Administrative Costs	450
1,976	Investment Management Expenses**	2,618
299	Oversight and Governance Costs	253
-	Local Pension Board	13
2,985		3,334

This analysis of the costs of managing the Havering Pension Fund during the period has been prepared in accordance with CIPFA guidance.

The Investment Management Expenses (see note 12) also includes £797k in respect of transaction costs (2013/14 £719k)

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note15).

**2013/14 figures for Management and Investment Expenses have also been restated to reflect the CIPFA guidance.

12. Investment Management Expenses

**2013/14 £000		2014/15 £000
1,918	Management Fees	2,571
45	Custody Fees	34
13	Performance Monitoring Service	13
1,976		2,618

**2013/14 figures for Management and Investment Expenses have been restated to reflect the CIPFA LGPS Management Costs guidance.

The management fees disclosed above include all investment management fees incurred by the Fund including those charged on pooled fund investments.

13. Investment Income

2013/14 £000		2014/15 £000
2,994	Equity Dividend	754
*3,844	Fixed Interest Securities	*3,918
1,291	Pooled Property Income	1,196
950	Foreign Exchange Gains	404
86	Interest on Cash and Deposits	47
114	Other Income	332
9,279		6,651

* Income includes Index linked Interest of £432k (2013/14 £464k)

14. Taxes on Income

None

15. Analysis of Investments

2013/14 £000		2014/15 £000
	Investment Assets	
	Equities	
6,707	UK Quoted	3,906
18,013	Overseas Quoted	20,485
24,720		24,391
	Fixed Interest Securities	
12,535	UK Public Sector	13,913
55,547	UK Private (Corporate)	68,003
-	Overseas Public Sector	-
68,082		81,916
	Index-Linked Securities	
41,558	UK Public Sector	49,766
642	UK Private (Corporate)	731
11,444	Overseas Public Sector	13,094
53,644		63,591
	Derivative Contracts	
183	Forward Currency Contracts	21
183		21
	Pooled Investment Vehicles	
	UK Managed Funds	
322,366	UK Quoted	360,314
16	UK Unquoted	19
696	Overseas	318
1,554	Property	550
	UK Unit Trust	
22,888	UK Property	26,341
347,520		387,542
	Cash Instruments	
-	UK	-
-		-
	Cash Deposits	
5,951	Managers	9,044
5,951		9,044
344	Outstanding Sales	-
1,178	Investment Income	1,236
190	Outstanding Dividend and Recoverable Withholding Tax	258
-	Investment Income due	-
1,712		1,494
501,812	Total Investment Assets	567,999

2013/14 £000		2014/15 £000
	Investment Liabilities	
	Derivative Contracts	
(74)	Forward FX Contracts	(550)
(960)	Outstanding Purchases	(355)
(2)	Investment Income Due	(5)
(1,036)	Total Investment Liabilities	(910)
500,776	Total Net Investments	567,089

	Market Value at 31 March 2014	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Cash & Other Movements	Market Value at 31 March 2015
	£000	£000	£000	£000	£000	£000
Equities	24,720	8,136	(11,533)	3,068	-	24,391
Fixed Interest Securities	68,082	30,756	(26,439)	9,517	-	81,916
Index-linked Securities	53,644	185,632	(186,914)	11,229	-	63,591
Pooled Investment Vehicles	347,520	204,674	(204,540)	39,888	-	387,542
Derivatives	109	260,038	(260,038)	(638)	-	(529)
Cash Deposits (fund managers)	5,951	-	-	(1)	3,094	9,044
	500,026	689,236	(689,464)	63,063	3,094	565,955
Other Investment Balances	750	-	-	(2)	386	1,134
	500,776	689,236	(689,464)	63,061	3,480	567,089

	Market Value at 31 March 2013	Purchases during the year and derivative payments	*Sales during the year and derivative receipts	*Change in Market Value during the year	Cash & Other Movements	Market Value at 31 March 2014
	£000	£000	£000	£000	£000	£000
Equities	107,401	29,913	(122,847)	10,253	-	24,720
Fixed Interest Securities	65,506	58,535	(54,397)	(1,562)	-	68,082
Index-linked Securities	53,541	160,203	(157,261)	(2,839)	-	53,644
Pooled Investment Vehicles	222,996	169,946	(5,979)	19,057	(58,500)	347,520
Derivatives	(387)	238,342	(238,342)	496	-	109
Cash instruments	1,055	10,052	(11,107)	-	-	-
Cash Deposits (fund managers)	5,719	-	-	-	232	5,951
	455,831	666,991	(589,933)	25,405	(58,268)	500,026
Other Investment Balances	1,502	-	-	(4)	(748)	750
	457,333	666,991	(589,933)	25,401	(59,016)	500,776

* Sales and Change in Market Values during the year ending 31 March 2014 has been restated to reflect treatment of management fees as per the CIPFA Guidance.

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 £797k, including transition costs (2013/14 £719k restated). 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.

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 2015 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	344,552	GBP	1,933	3	-
Up to one month	JPY	454,717	GBP	2,564	-	(9)
Up to one month	JPY	555,241	GBP	3,144	-	(24)
Up to one month	GBP	8,471	JPY	1,518,696	-	(62)
Up to one month	GBP	1,581	JPY	287,835	-	(37)
Up to two months	GBP	14,816	USD	22,578	-	(398)
Up to two months	GBP	327	USD	504	-	(12)
Up to three months	GBP	1,763	EUR	2,441	-	(5)
Up to three months	GBP	1,038	EUR	1,408	18	-
Up to three months	GBP	640	USD	952	-	(1)
Up to three months	GBP	485	USD	722	-	(2)
Gross open forward currency contracts at 31 March 2015					21	(550)
Net forward currency contracts at 31 March 2015					-	(529)
Prior year comparative						
Gross open forward currency contracts at 31 March 2014					183	(74)
Net forward currency contracts at 31 March 2014					109	-

The investments analysed by fund managers and the market value of assets under their management as at 31 March 2015 were as follows:

Value 31 March 2014		Manager	Mandate	Value 31 March 2015	
£000	%			£000	%
99,454	19.86	Royal London	Investment Grade Bonds	119,855	21.13
23,166	4.63	UBS	Property	26,671	4.70
64,853	12.95	Ruffer	Absolute Return	72,851	12.85
46,634	9.31	State Street Global Assets	Passive UK/Global Equities	55,502	9.79
11,547	2.31	State Street Global Assets	Sterling Liquidity Fund	11,682	2.06
85,594	17.09	Baillie Gifford	Pooled Global Equities	101,846	17.96
97,978	19.57	Barings DAAF	Multi Asset	17	-
71,029	14.18	Baillie Gifford DGF	Multi Asset	76,732	13.53
-	-	GMO	Multi Asset	101,882	17.97
521	0.10	Other		51	0.01
500,776	100.00	Total Fund		567,089	100.00

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

Market Value 31 March 2014	% of total fund	Security	Market Value 31 March 2015	% of total fund
£000			£000	
97,978	19.36	Barings Dynamic Asset Allocation Fund	-	-
-	-	GMO	101,882	17.73
85,594	16.92	Baillie Gifford Global Alpha Pension Fund	101,846	17.72
71,029	14.04	Baillie Gifford Diversified Growth Fund	76,732	13.35
46,634	9.22	SSGA MPF All World Equity Index	55,502	9.66

16. 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 Fund's 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.

17. 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 2014				31 March 2015		
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			
24,720	-	-	Equities	24,391	-	-
68,082	-	-	Fixed Interest Securities	81,916	-	-
53,644	-	-	Index linked securities	63,591	-	-
183	-	-	Derivative contracts	14	-	-
324,632	-	-	Pooled investment Vehicles	361,201	-	-
22,888	-	-	Property	26,341	-	-
-	5,951	-	Cash	-	9,044	-
-	9,566	-	Debtors	-	9,525	-
494,149	15,517	-	Financial Assets Total	557,454	18,569	-
			Financial Liabilities			
(74)	-	-	Derivative contracts	(543)	-	-
-	-	(3,573)	Creditors	-	-	(811)
(74)	-	(3,573)	Financial Liabilities Total	(543)	-	(811)
494,075	15,517	(3,573)	Grand total	556,911	18,569	(811)

(b) Net gains and losses on financial instruments

2013/14 £000		2014/15 £000
	Financial assets	
24,427	Fair value through fund account	63,061
-	Loans and receivables	-
-	Financial liabilities measured at amortised cost	-
	Financial liabilities	
-	Fair value through fund account	-
-	Loans and receivables	-
-	Financial liabilities measured at amortised cost	-
24,427	Total	63,061

(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

2013/14			2014/15	
Carrying Value	Fair Value		Carrying Value	Fair Value
£000	£000		£000	£000
494,149	494,149	Financial assets		
15,517	15,517	Fair value through fund account	557,454	557,472
		Loans and receivables	18,569	18,551
509,666	509,666	Total financial assets	576,023	576,023
		Financial liabilities		
(74)	(74)	Fair value through fund account	(543)	(543)
(3,573)	(3,573)	Financial liabilities at amortised cost	(811)	(811)
(3,647)	(3,647)	Total financial liabilities	(1,354)	(1,354)

The Authority 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.

Values at 31 March 2015	Quoted Market price	Using observable inputs	With significant unobservable inputs	Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
Financial Assets				
Financial assets at fair value through profit and loss	531,112	19	26,341	557,472
Loans and receivables	18,551	-	-	18,551
Total Financial Assets	549,663	19	26,341	576,023
Financial Liabilities				
Financial liabilities at fair value through profit and loss	(543)	-	-	(543)
Financial liabilities at amortised cost	(811)	-	-	(811)
Total Financial Liabilities	(1,354)	-	-	(1,354)
Net Financial Assets	548,309	19	26,341	574,669

Values at 31 March 2014	Quoted Market price	Using observable inputs	With significant unobservable inputs	Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
Financial Assets				
Financial assets at fair value through profit and loss	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	483,115	16	22,888	506,019

18. 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 Authority manages these investment risks as part of its overall pension fund risk management programme.

(a) Market Risk

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

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

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

Other Price Risk

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

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

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

Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movements during the financial year, in consultation with the Fund's performance monitoring service, it has been determined that the following movements in market price risk are reasonably possible for the 2014/15 reporting period:

Asset Type	31 March 2015 Potential market movements (+/-)	31 March 2014 Potential market movements (+/-)
UK Equities	-	8.91%
Global Pooled inc. UK	9.04%	11.31%
Fixed Interest Bonds	7.74%	6.74%
Index Linked Bonds	11.26%	10.49%
Property	4.86%	4.17%
Cash	0.01%	0.02%

The potential price changes disclosed above are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend on the Funds asset allocations. The potential volatilities are consistent with a one-standard deviation movement in the value of assets over the last three years. This can be applied to the period end asset mix.

If the market price of the Fund's 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 2015 £000	Change %	Value on Increase £000	Value on Decrease £000
UK Equities	-	-	-	-
Global Pooled inc.UK	385,592	9.04	420,450	350,734
Fixed Interest Bonds	81,916	7.74	88,256	75,576
Index linked Bonds	63,591	11.26	70,751	56,431
Property	26,341	4.86	27,621	25,061
Cash	9,044	0.01	9,045	9,043
Total	566,484		616,123	516,845

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

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 2015 and 31 March 2014 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 2015 £000	As at 31 March 2014 £000
Bond Securities	145,507	121,726
Cash and Cash Equivalents	9,044	5,951
Cash Balances	-	-
Total	154,551	127,677

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 2015 £000	Change in year in the net assets available to pay benefits	
		+100BPS £000	-100BPS £000
Bond Securities	145,507	1,465	(1,465)
Cash and Cash Equivalents	9,044	90	(90)
Total Change in Asset Value	154,551	1,555	(1,555)

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. pounds sterling.

The table below summarises the Fund's currency exposure by asset type

Currency Exposure by Asset Type	Value as at 31 March 2015 £000	Value as at 31 March 2014 £000
Overseas Equities	20,485	18,013
Overseas Pooled	2,249	2,971
Overseas Index Linked Bonds	13,094	11,444
Overseas Cash	140	113
Total Overseas Assets	35,968	32,541

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 7.37% over a rolling 36 month period.

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

A 7.37% strengthening and weakening of the pound against the various currencies in which the Fund holds investments would increase or decrease the net assets available to pay benefits as follows:

Currency Exposure by Asset Type	Value as at 31 March 2015 £000	Change to net assets available to pay benefits	
		+7.37% £000	-7.37% £000
Overseas Equities	20,485	21,995	18,975
Overseas Pooled	2,249	2,415	2,083
Overseas Index Linked Bonds	13,094	14,059	12,129
Overseas Cash	140	150	130
Total	35,968	38,619	33,317

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

(b) Credit Risk

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

for in the carrying value of the Fund's assets and liabilities.

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

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

(c) Liquidity Risk

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

19. Funding Arrangements

London Borough of Havering ("the Fund")

Actuarial Statement for 2014/15

This statement has been prepared in accordance with Regulation 57(1) (d) of the Local Government Pension Scheme Regulations 2013, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2014/15. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The Funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS). 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'/dependants' 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 to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (N.B. this will also minimise the costs to be borne by council tax payers);
- to reflect the different characteristics of different employers 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 20 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 2013 valuation report published 31 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:

Assumptions	31 March 2013	
	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 assumption is based on the Fund's VitaCurves with improvements in line with the 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 summarised below:

	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 the London Borough of Havering, Administering Authority to the Fund.

Experience over the period since April 2013

Experience has been mixed over the two years to 31 March 2015 (excluding the effect of any membership movements). Real bond yields have fallen dramatically and the effect of this has been offset by the effect of strong asset returns, meaning that funding levels are likely to have increased marginally over this period.

The next actuarial 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 Authority, 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 17.3% to 28.7% of pensionable pay.

20. Actuarial Present Value of Promised Retirements

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS19 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 19).

Balance Sheet

Year Ended	31 March 2015	31 March 2014
	£m	£m
Present Value of Promised Retirement Benefits	1,019	898

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. It is estimated that this liability at 31 March 2015 comprises £460m in respect of employee members, £164m in respect of deferred pensioners and £395m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, the actuary is satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. No allowance has been made for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. It is estimated that the impact of the change of assumptions to 31 March 2015 is to increase the actuarial present value by £92m.

Financial assumptions

The actuary's recommended financial assumptions are summarised below:

Year Ended	31 March 2015	31 March 2014
	% p.a.	% p.a.
Inflation/Pensions Increase Rate	2.10	2.60
Salary Increase Rate	3.00	3.40
Discount Rate	3.10	4.10

Longevity assumption

As discussed in Note 19, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the 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 summarised below:

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

*Future pensioners are assumed to be currently aged 45

Please note the longevity assumptions are identical to those used for the previous IAS26 disclosure for the Fund.

Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2015 for IAS19 purposes' dated 24 April 2015. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

21. Current Assets

2013/14 £000		2014/15 £000
	Debtors:	
8	Pension Grants	8
-	Other Local Authorities	7
184	Contributions due from employers	345
71	Contributions due from members	71
-	Pension Fund Bank Account Balances	2,608
-	Debtors Refund	2
7,591	Cash deposit with LB Havering	5,298
7,854	Current Assets	8,339

2013/14 £000	Analysis of Debtors	2014/15 £000
8	NHS Bodies	8
-	Other local authorities	7
184	Public corporation and trading funds	345
71	Other entities and individuals	73
263	Total Debtors	433

22. Current Liabilities

2013/14 £000		2014/15 £000
	Creditors:	
(439)	Unpaid Benefits	(188)
(241)	Accrued Expenses	(263)
(1,931)	Pension Fund Bank Account Balance	-
-	Income Tax Recoveries	(305)
-	Holding Accounts	(3)
(2,611)		(759)

2013/14 £000	Analysis of Creditors	2014/15 £000
(680)	Other entities and individuals	(759)
(680)	Total	(759)

23. Additional Voluntary Contributions

Market Value 2013/14 £000	AVC Provider	Market Value 2014/15 £000
717	Prudential	803
145	Standard Life	160

Some employees made additional voluntary contributions (AVC's) of £62,496 (2013/14 £62,167) excluded from these statements. These are deducted from the employees' salaries and forwarded to the stakeholder pension schemes provided by the Prudential and Standard Life. The amounts forwarded during 2014/15 were £47,380 (2013/14 £48,592) to the Prudential and £15,116 (2013/14 £13,575) to Standard Life.

24. Related Party Transactions

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

The Havering Pension Fund is administered by Havering Council and consequently there is a strong relationship between the Authority and the Pension Fund. In 2014/15, £0.411m was paid to the Authority for the cost of administering the Fund (£0.693m in 2013/14).

The Authority is also the largest employer in the Fund and in 2014/15 contributed £22.526m (£33.500m in 2013/14) 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 2015 these included the Group Director of Communities and Resources, Head of Finance and Procurement, Corporate Finance Manager and the Pension Fund Accountant. All of these managers are members of the Pension Fund. In 2014/15 the Pension Fund contributed £0.143m for the cost of the financial management of the Fund (£0.143m 2013/14).

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 2015 cash holdings totalled £7.6m (2013/14 £5.7m), earning interest over the year of £47k (2013/14 £41k).

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 Communities and 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.

25. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) as at 31 March 2015 totalled £186k (2013/14 £186k). This relates to an outstanding commitment due on an unquoted private equity fund.

26. 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 £4.2m and are drawn down in favour of the Pension Fund. 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.

27. Impairment Losses

There were no material impairment losses for bad and doubtful debts as at 31 March 2015.

Statement of Responsibilities

The Authority's Responsibilities

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Group Director of Communities and Resources.
- Manage its affairs to secure economic efficient and effective use of resources and safeguard its assets.
- Approve the Pension Fund Statement of Accounts.

The Group Director of Communities and Resources' Responsibilities

The Group Director of Communities and Resources is responsible for the preparation of the Authority's statement of accounts in accordance with proper accounting practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the code).

In preparing this Pension Fund Statement of Accounts, the Group Director of Communities and Resources has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the Code

The Group Director of Communities and Resources has also:

- Kept proper accounting records which were up to date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Pension Fund Statement of Accounts presents the true and fair financial position and transactions of the Authority as at 31 March 2015 and its income and expenditure for the year ended 31 March 2015.

Councillor John Crowder
Chairman, Pensions Committee
Date:

Andrew Blake-Herbert
Group Director of Communities and Resources
Date:

INSERT UPDATE

Independent auditors' statement to the Members of the London Borough of Havering (the "Authority") on the Pension Fund financial statements

Statement on the financial statements

Our opinion

In our opinion the financial statements, defined below:

- are consistent with the pension fund accounts included within the Statement of Accounts of the London Borough of Havering for the year ended 31 March 2014; and
- have been properly prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This opinion is to be read in the context of what we say in the remainder of this report.

What we have examined

The pension fund financial statements, which are prepared by the London Borough of Havering, comprise:

- the Net Assets Statement as at 31 March 2014;
- the Fund Account for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in their preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Responsibilities for the financial statements and our examination

Our responsibilities and those of the Group Director of Communities and Resources

As explained more fully in the Statement of Responsibilities set out on page 7 of the audited Statement of Accounts the Group Director of Communities and Resources is responsible for the preparation of the financial statements in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Our responsibility is to express an opinion on the consistency of the financial statements within the pension fund annual report with the pension fund accounts in the Statement of Accounts of the London Borough of Havering. Our report on the pension fund accounts describes the basis of our opinion on those pension fund accounts.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information consists only of the Trustee Report, the Management and Financial Performance Report, the Investment Policy and Performance Report, the Scheme Administration Report, the Actuarial Report, the Governance Compliance Statement, the Fund Account and Net Assets Statement, the Benchmarking Report, the Funding Strategy Statement, the Statement of Investment Principles and the Communication Policy Statement.

This report, including the opinions, has been prepared for and only for the Authority's members as a body in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies – Local Government, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other matters

We have not considered the effects of any events between the date on which we signed our report on the Statement of Accounts, 30 September 2014, and the date of this statement.

Julian Rickett (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Norwich

The maintenance and integrity of the London Borough of Havering website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Statement of Accounts since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of the Statement of Accounts may differ from legislation in other jurisdictions.

Pensions Administration Strategy

Under regulation 34(1) (g) and in accordance with regulation 65 (2) (b) of the Local Government Pension Scheme (Administration) Regulations 2008, an administering authority has the option to include an annual report dealing with the fund's position with regard to benchmarking administration performance. In line with regulations and after consideration, the Administrative Authority has not adopted a Pension Administration Strategy. This option continues to be reviewed.

Although the Administering Authority has not adopted an Administration Strategy it has documents that cover the information on the pension scheme, forms and contribution schedules. Arrangements are made to meet all new scheme employers where their responsibilities are set out, service standards are outlined and electronic copies of all information, forms and schedules are provided. Employing authorities must ensure proper records of staff are kept so that the right contributions are paid and staff receives the benefits to which they are entitled when they leave employment.

Funding Strategy Statement

The Fund publishes a Funding Strategy Statement (FSS) in accordance with Regulation 58 of the LGPS Regulations 2013.

The Regulation requires the Pension Fund Administering Authority to publish a statement, keep its statement under review and to make such revisions as are appropriate following a material change to its policy as set out in the statement.

The Administering Authority produces a Funding Strategy Statement (FSS) in collaboration with The Fund's Actuary, Hymans Robertson, and after consultation with the Fund's employers. It incorporates the aims and purposes of the Fund and establishes a strategy which identifies the pension fund liabilities and how these will be met over the long term. It also encompasses the overall investment strategy.

The FSS was reviewed as part of the 2013 valuation process and produced in line with the revised and updated guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in 2012. The current FSS is operative from 1 April 2014.

This document can be found in the appendices attached to this report and is available on the Authority's website by selecting the link [Havering Pension Fund](#)

The Authority undertakes regular reviews of the above statement and will consider any comments you may have for future reviews. Please forward comments to the contact point designated at the back of the report.

Statement of Investment Principles

The Local Government Pension Scheme regulations require the administering authority to prepare and publish a Statement of Investment Principles (SIP). This Statement sets out the Authority's policy on a range of matters relating to the investments and management of the Pension Fund and is regularly reviewed and updated.

The Statement of Investment Principles must cover the Fund's policy as follows:

- The types of investments held
- The balance between different types of investments
- Risk
- The expected return on investments
- The extent to which social, ethical or environmental considerations affect investments.

A report commissioned by the Government, 'The Myners Report', recommended ten principles of best practice in managing Pension Fund investments. The Authority's SIP outlines the Pension Fund's compliance with these principles.

Statutory Instrument 2002 No.1852 requires that London Borough of Havering, Administering Authority of the Havering Pension Fund, publish details of the extent to which the Fund complies with the ten principles identified as indicators of best practice in the Myners Review of Institutional Investment.

In 2007 HM Treasury sponsored the NAPF to conduct a review of progress made throughout the pensions industry since the introduction of the Myners principles in 2001. The resultant report 'Institutional Investment in the UK: six years on' was followed by a wide consultation exercise culminating in the original ten principles being replaced by six new principles.

The new principles were launched in October 2008 and HM Treasury and the Department for Work and Pensions jointly commissioned by the Pensions Regulator to oversee an Investment Governance Group were given the task of implementing the new principles across all UK pension funds.

There was an Investment Governance sub-group especially for the LGPS (including representatives of CLG and CIPFA) who have amended the principles to fit the LGPS. CIPFA published a guide to the application of the Myners Principles 'investment decision making and disclosure' in December 2009. Information on how Havering has complied with these six principles is included as an appendix in the Statement of Investment Principles.

The SIP together with the Myners compliance table can be found in the appendices at the back of the report.

This SIP and the Myners compliance table have also been published on the Authority's website by selecting the link [Havering Pension Fund](#)

The Authority undertakes regular reviews of the above statement and will consider any comments you may have for future reviews. Please forward comments to the contact point designated at the back of the report.

Communication Policy Statement

The Local Government Pension Scheme Administration Regulations 2015 requires the administering authority to prepare and publish a written statement covering communications with scheme members and employing authorities.

The statement must set out the policy concerning:






- communications with members, representatives, prospective members and employing authorities
- format, frequency and method of distributing such information or publicly.















This statement is reviewed periodically. A revised Communications Policy Statement was approved at the Pension Committee on 26th March 2013 for the period 2013 – 2015. A review of the Communication Strategy achievements for 2014/15 is shown below.

This statement can be found in the appendices at the back of this report.

This Statement has also been published on the Authority's website by selecting the link [Havering Pension Fund](#)

Communication Policy Delivery

Communication Responsibilities	Paper	Electronic	Web	Face	Achieved
Action 1 – Get ready for new challenges for active members					
Review employee communications methods to ensure that they are efficient as well as effective					Reviewed pension website to make it easier to find information, added the online modellers and relevant videos about the new pension scheme
Promote use of the LBH pension website www.yourpension.org.uk/handr and the Council's Pension Fund pages, www.havering.gov.uk/pages/services/pension-fund.aspx					Promoted websites at all meetings and in all communications (letters and phone calls). Also a PR code is printed on key documents produced by the pension administration team All updated option forms are only available via the website unless no access to a computer
Explore development of member online access to the pension administration system in line with self service					Contracted for, as part of new pension system, ongoing for 2015/16 implementation. Updated joiners option forms to capture the email addresses ready for setting members up for Member Self Service (MSS).
Explore the development of member online benefit statements in line with self service					In the process of being developed and dependant on the above action
Support the Pension Team staff in developing communication skills through training, support and on the job training to increase their overall skills and knowledge					A rota of team members have supported senior staff at all communication meetings – new scheme presentations and road shows, pre-retirement courses and new employer introduction meetings. Also started to allocate

Communication Responsibilities	Paper	Electronic	Web	Face	Achieved
					employers to Senior Transactional Agents to manage support and communications.
Action 2 – Get ready for new challenges for employers					
Maximise the use of the newly developed Pensions Team employer communication database					Used for all electronic communications, in particular new scheme information and automatic enrolment information
Distribute material for employers to issue to employees					All new scheme information has been distributed (using the electronic database) – New Scheme Overview, Annual Allowance briefings, new scheme forms, Payroll and HR Scheme Guides, Contribution band letters etc.
Work with employers to ensure they communicate effectively and efficiently with their employees					Apart from the electronic communications via the database, face-to-face meetings have been held with all employers to help them understand their employer responsibilities and data requirements of the new scheme. Further meetings on Employer Discretions together with new employer meetings.
Continually review and improve the material and service available to employers via the LBH pension website(www.yourpension.org.uk/handr), and the Council website, www.havering.gov.uk/pages/servoces/pension-fund.aspx					A new employer tab has continued to be developed on the pension website and has been updated for the new CARE 2014 scheme A new TUPE manual has been commissioned to support scheme employers to understand their responsibilities and implications when outsourcing; this will be available via the website when completed.
Collate Employer Discretion Documents					Published policies and Employer discretions, where available, on the pension website
Explore online access for scheduled and admitted bodies to automate interfaces and updates, reducing administrative overheads					Worked with the London Borough of Havering on the development of the One Oracle interfaces, which have been tested and in the process of being implemented
Regular meetings with Scheme Employers					As above
Allocated Specialist Senior Transactional (STA) Agent to each employer as employer liaison officers					All employers have a Senior Transactional agent and Team Lead for any data issues and the allocation of a benefits specialist is being rolled out

Communication Responsibilities	Paper	Electronic	Web	Face	Achieved
Action 3 – Get ready for new challenges for pensioners					
Explore development of member online access to the pension administration system in line with self-service					See above re member self-service (MSS), in development.

In addition to the work taking place to deliver the agreed Communication Policy actions, significant communication took place with all employees, across all employers, if impacted by the implementation of the CARE Scheme. The Pensions Project Manager has been working with employers whose automatic enrolment staging occurred in 2014/15.

The pension website is promoted on the staff intranet at the Authority and in posters placed on staff notice boards in all Authority buildings to ensure information on the pension scheme is accessible and available to everyone, not just scheme members. It is also advertised on payslips produced by oneSource Payroll Services on a regular basis.

The Authority's jobs page includes, within the General Conditions of Employment, relevant for all potential and actual applicants, information on the Local Government Pension Scheme,

Contact Points for Further Information

If you have any queries on the benefits or costs of membership of the Pension Fund please contact:

Pensions Administration
Central Library, 2nd Floor
Park End Road
Romford
RM1 3AR
Telephone: 01708 432978/ 2981/ 2192

Email: pensions@havering.gov.uk

For further information on issues relating to Fund Investments and Accounts, or feedback on any of the contents in this report please contact:

Debbie Ford
Pension Fund Accountant
Central Library, 1st Floor
Park End Road
Romford
RM1 3AR

Telephone: 01708 432569

Email: debbie.ford@havering.gov.uk

Other useful addresses:

Local Government Pension Scheme website: www.lgps.org.uk

Local Government Pension Scheme information and Havering Pension Fund communication with members: www.yourpension.org.uk (site managed by the London Pension Fund Authority)

The Pension Service website: www.thepensionservice.gov.uk

APPENDICES



Haverling
LONDON BOROUGH

PENSION FUND

GOVERNANCE COMPLIANCE STATEMENT

UPDATED NOVEMBER 2014

1. The Council is the Administering Authority of the Havering Pension Fund (the Fund). The council has delegated to the Pensions Committee various powers and duties in respect of its administration of the Fund.

2. Constitutional Arrangements

Under the Council’s Constitution the duties and terms of reference of the Pension Committee are as follows:

“To consider and agree the investment strategy and statement of investment principles for the pension fund and subsequently monitor and review performance”.

“Authorise staff to invite tenders and award contracts for actuaries, advisers and fund managers and in respect of other related investment matters”.

“To appoint and review the performance of advisers and investment managers for pension fund investments”.

“To take decisions on those matters not to be the responsibility of the Cabinet under the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 relating to those matters concerning the Local Government Pension Scheme”

3. Current Membership of the Pension Committee

The Annual meeting of the Council held on 11 June 2014 created a Pension Committee consisting of seven councillors as listed below:

Conservative Group (3)	Residents’ Group (3)	UKIP (1)
John Crowder (Chair) Melvin Wallace Roger Westwood	Ron Ower Linda Hawthorne John Mylod	David Johnson (vice chair)

Following an Extraordinary meeting of the Council on 22 October 2014 the membership of the Pension Committee was changed to the following:

Conservative Group (3)	Resident's Group (2)	East Havering Resident's Group (1)	UKIP (1)
John Crowder (Chair) Melvin Wallace Roger Westwood	John Mylod Stephanie Nunn	Clarence Barrett	David Johnson (Vice-Chair)

Three Members constitute a quorum.

The staff trade union may appoint two representatives, entitled to attend and speak at meetings of the Pension Committee. They possess no voting powers. These representatives are however entitled to remain within the Committee, should the public be excluded on the grounds that exempt information is to be considered.

Scheduled and Admitted bodies may appoint one representative, entitled to attend the meetings of the Pensions Committee on their behalf. Voting rights were assigned to this representative at a Council meeting on the 28 March 2012.

The Committee obtains and considers advice from the authority's officers, and as necessary from the fund's appointed professional advisor, actuary and performance measurers who also attend the meetings as and when required.

Longevity in membership of the Committee is encouraged in order to ensure that expertise is maintained within. The Council recommend that the membership of the Pension Committee remain static for the life of the Council in order that members are fully trained in matters relating to investment, unless exceptional circumstances require a change. Furthermore substitute members are expected to have also been trained. The constitution was amended on the 28 March 2012 to include a condition that if a member does not undertake the required training within six months of appointment than that member shall not partake in the decision making of the Committee until their training has been completed.

Day to day management of the fund is delegated to the Group Director of Communities and Resources.

The Committee is supported by the Group Director of Communities and Resources and the Director of Legal and Governance (oneSource). The Director of Exchequer and Transactional Services (oneSource) has the responsibility to administer the Council's Pension Fund.

4. Training/Reimbursement

An annual training plan is submitted to the Pensions Committee for approval. Committee Members receive in depth training on a wide range of topics. Specific training is given on specific investment topics prior to any key decisions being taken. This approach ensures that important decisions are taken whilst training is still fresh in Members minds.

Members expenses are reimbursed in line with the Council's constitution as laid down in part 6 'Members Allowance Scheme'.

5. Whistle Blowing

The Pension Committee comply with the Whistle Blowing requirements of the Pension Act 2004. It urges anyone to inform the correct authorities of any known wrong doings.

6. Diary

The Committee meets five times a year and occasionally holds extra meetings if required.

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7. Further Trustee Responsibilities on Governance and Stewardship

Trustees are encouraged to look beyond administration procedures to really understand the key risks associated with all the functions and activities of the scheme. They are expected to consider risk management and stewardship in broad terms. Key risks include:

- Risk of fraud
- Corporate risk – risk of deterioration in the strength of employer covenant
- Funding and Investment risk – inappropriate investment strategies (one example of this could be risk of a mismatch of assets and liabilities)
- Compliance of Regulatory risk – risk of failure to comply with scheme rules and legislation

The further practical steps undertaken to cover these risks are as follows:

- The Statement of Investment Principles includes procedures to undertake a risk management review, and ensures terms of reference of delegations cover all key responsibilities.

- There are codes of conduct in place which ensure there is a process in place that considers potential conflicts of interest, with clearly identified steps to mitigate the likelihood or protocols if conflict occurs.
- The Pension Committee periodically sets out a business plan for the year.

8. Accountability and publication of information

Details of the Pension Committee meetings are published on the Council's website together with agendas and minutes. The meetings of the Pension Committee are held at the Town Hall and are open to the public.

Scheduled and Admitted bodies are directed to the Agenda and minutes published on the Council's web-site and are notified in writing of any major issues.

An Annual Pension Fund Report and Accounts is published on the Council's web-site, reporting on the activities and investment performance of the fund. The report also includes the meetings held and details of matters considered.

9. Reviewing and Updating

As well as undertaking an annual review the Council will review the policy as and when material changes occur.

10. Compliance table

A table is appended to this document and shows the extent of compliance with guidance given by the Sectary of State.

	PRINCIPLE	HAVING POSITION
A.	<p><u>Structure</u></p> <p>a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.</p>	<p>Full compliance. Duties and terms of reference are laid out in the Councils constitution (Part 3) and states that management of the pension fund assets lies with the Pensions Committee. Day to day management of the Pension Fund is delegated to the Group Director of Communities and Resources.</p> <p>Sections 2 and 3 of the Governance Compliance Statement refer.</p>
	<p>b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the committee.</p>	<p>Full compliance. Admitted/Scheduled bodies may appoint one representative to attend the committee meetings. The staff Trade Unions may appoint two representatives to attend and speak at meetings.</p> <p>There is no secondary committee.</p> <p>Section 3 of the Governance Compliance Statement refers.</p>
	<p>c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</p>	<p>No secondary committee or panel has been established.</p>
	<p>d. That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.</p>	<p>No secondary committee or panel has been established.</p>

	PRINCIPLE	HAVERING POSITION
B	<p><u>Committee Membership and Representation</u></p> <p>a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:</p> <ul style="list-style-type: none"> i) employing authorities (including non-scheme employers, e.g. admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, and iv) expert advisors (on an ad-hoc basis) 	<p>i) Full compliance - A position has been established for Admitted/Scheduled bodies' representative to be a member of the Pensions Committee and is currently occupied by the burser from St Edwards C of E School. Supplementary to the above stakeholders are consulted for their views with regard to various policies and are directed to papers and reports held on the Council's website.</p> <p>ii) Full compliance – via trade union representation</p> <p>iii) Non compliance – The Pension Committee have considered this and decided that it is not appropriate to appoint an independent observer on the basis that the current monitoring arrangements are sufficient for the size of the fund.</p> <p>iv) Full compliance – The Fund has appointed an Investment Advisor, an Actuary and Performance Measurers, who attend meetings as and when required.</p> <p>Section 3 of the Governance Compliance Statement refers.</p>

	PRINCIPLE	HAVING POSITION
C	<p><u>Selection and role of lay members</u></p> <p>a. That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.</p>	<p>Full compliance. Duties and terms of reference are laid out in the Councils constitution and states that management of the pension fund lies with the Pensions Committee.</p> <p>Sections 2 and 3 of the Governance Compliance Statement refer.</p>
	<p>b. That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.</p>	<p>Full compliance. Declarations of interest are always an agenda item at the Pension Committee meetings.</p> <p>Section 7 of the Governance Compliance Statement refers.</p>
D	<p><u>Voting</u></p> <p>a. The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.</p>	<p>Full compliance. The Governance Compliance Statement is clear about voting rights</p> <p>Section 3 of the Governance Compliance Statement refers.</p>
E	<p><u>Training/Facility time/Expenses</u></p> <p>a. That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.</p>	<p>Full compliance. Member's expenses and allowances are laid out in the Council's Constitution (Part 6). The business plan includes the policy on training.</p>

PRINCIPLE	HAVERING POSITION
<p>b. That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.</p>	<p>Full compliance. As above.</p>
<p>c. That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken</p>	<p>Full compliance.</p> <p>As above. Training is laid out in the Annual Business Plan/Work of the Committee. The Business Plan is agreed by the Pensions Committee and all committee members and nominated substitutes are offered training. A training log is maintained and records attendance and training undertaken.</p> <p>Section 4 of the Governance Compliance Statement refers.</p>

	PRINCIPLE	HAVING POSITION
F	<p><u>Meetings (frequency/quorum)</u> a. That an administering authority's main committee or committees meet at least quarterly</p>	<p>Full compliance. The Pension Committee meets five times a year and occasionally holds extra meetings if and when required. Sections 2, 3 and 6 of the Governance Compliance Statement refer.</p>
	<p>b. That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the committee sits.</p>	<p>No secondary committee or panel has been established.</p>
	<p>c. That an administration authority who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which interests of key stakeholders can be represented.</p>	<p>Full compliance. Membership on the Pensions Committee includes a representative to serve all Admitted/Scheduled bodies.</p> <p>The current forums for which stakeholders interests can be represented are:</p> <ul style="list-style-type: none"> • Through invitation to committee meeting • Written correspondence – employers are invited for comments via letters and email as part of any consultation process, including proposed policy changes. <p>Havering is one of the partnerships working with the London Pensions Fund Authority, who have produced a website for scheme members to use. Factsheets and scheme communications are also published on this website along with contact details at Havering for members to contact with their views.</p>

	PRINCIPLE	HAVING POSITION
G	<p><u>Access</u></p> <p>a. That subject to any rules in the council’s constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.</p>	<p>Full compliance. Committee papers are sent to members at least seven days prior to the meeting and non confidential papers are published on the Council’s website.</p> <p>Section 8 of the Governance Compliance Statement refers.</p>
H	<p><u>Scope</u></p> <p>a. That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements</p>	<p>Full compliance. The Committee already considers a wider range of pension issues.</p> <p>Section 7 of the Governance Compliance Statement refers.</p>
I	<p><u>Publicity</u></p> <p>a. That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.</p>	<p>Full compliance. Governance arrangements are published on the Council’s website and comments are invited from stakeholders.</p> <p>Section 8 of the Governance Compliance Statement refers.</p>



Haverling
L O N D O N B O R O U G H

**HAVERING PENSION FUND
COMMUNICATION STRATEGY**

2013 -2015

COMMUNICATION STRATEGY 2013 - 2015

INTRODUCTION

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

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

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

The scheme stakeholders include:

- COMMITTEE MEMBERS
- EMPLOYERS including
 - LONDON BOROUGH OF HAVERING
 - SCHEDULED BODIES
 - ADMITED BODIES
- SCHEME MEMBERS
 - ACTIVE MEMBERS (CONTRIBUTORS)
 - RETIRED MEMBERS AND DEPENDENTS
 - DEFERRED MEMBERS
 - PENSION CREDIT MEMBERS

- PROSPECTIVE SCHEME MEMBERS
- OFFICERS WORKING IN THE ISS PENSION TEAM AND FUND MANAGEMENT
- INVESTMENT FUND MANAGERS

- OTHER BODIES
 - TRADE UNIONS
 - ACTUARIES
 - LEGAL ADVISER
 - AVC PROVIDERS
 - PENSION ADMINISTRATION SOFTWARE PROVIDER
 - INVESTMENT ADVISOR

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

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

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

COMMUNICATION PRIORITIES

There are four areas of significant change and challenge that will drive the communication strategy during the period 2013 – 2015:

- i) Automatic Enrolment;
- ii) the introduction of the new CARE pension scheme from April 2014;
- iii) the Triennial Revaluation; and
- iii) procuring a new pension software system in readiness for the 2014 pension changes.

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

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

The Key actions will be -

Action 1 – ‘Get ready for new challenges’ for active members:

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

- support the Pension Team staff in developing communication skills through training, support and on the job training to increase their overall skills and knowledge.

Action 2 – ‘Get ready for new challenges’ for employers:

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

Action 3 – ‘Get ready for new challenges’ for pensioners:

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

COMMUNICATION RESPONSIBILITIES AND METHODS

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

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

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

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

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

PENSION COMMITTEE MEMBERS

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

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

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

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

SCHEME EMPLOYERS

Recent Changes

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

Regular Updates

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

Employers' Guide

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

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

Internet

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

Site Meetings

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

SCHEME MEMBERS

Internet

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

Pension Fund Annual Report and Accounts

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

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

Newsletters

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

Benefits Statements

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

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

Scheme Literature

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

Pay Advices

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

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

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

Correspondence

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

Our Aspirations

To offer "self service" to update the scheme member individual records on the pension administration system. This will allow them to access their pension record using a password security system and to transact a significant proportion of their pensions business without having

to enter into formal correspondence. Self-service is dependent upon upgrading the pension administration system.

Pension Roadshow

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

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

PROSPECTIVE SCHEME MEMBERS

Scheme Booklet

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

Intranet

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

Trade Unions

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

Pensions Roadshows

As well as being a valuable aid for pensioners and current scheme members, roadshows will be used to target specific non-members with support being enlisted from the DWP and in-house AVC providers. This will ensure members receive the information required to make an informed choice with regards to their pension provision. Currently roadshows are being delivered to communicate Automatic Enrolment and the proposed pension scheme changes in April 2014.

Corporate Induction Courses

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

One-to-One” surgeries

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

OFFICERS WORKING IN THE ISS PENSION TEAM AND FUND MANAGEMENT

Service Management Teams

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

Team Meetings

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

Group Management Team Meetings – Finance and Commerce

The Heads of Service are members of the Group’s Management Team and attend the regular meetings convened by the Group Director. The Heads of Service are able to bring any matters of

concern/importance to the attention of the Group Director through this mechanism.

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

Shared Area

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

Induction

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

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

Seminars

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

Pensions Team Leader

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

Pension Fund Accountant

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

INVESTMENT FUND MANAGERS

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

OTHER BODIES

Trade Unions

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

Seminars

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

CIPFA Benchmarking club

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

Data Protection

To protect any personal information held on computer, the London Borough of Havering is registered under the Data Protection Act 1998. This allows members to check that their details held are accurate. The Fund may, if necessary, pass certain details to a third party, if the third party is carrying out an

administrative function of the Fund, for example, the Fund's AVC provider. Members who wish to apply to access their data on Data Protection Act grounds should contact the London Borough of Havering's Council's Data Protection Officer on 01708-432130.

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

Further Information

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

Write to us at:
Pensions Team
Internal Shared Services
Central Library, 2nd Floor,
Park End Road
Romford
RM1 3AR

Tel: 01708 433333
Fax: 01708 432078
E-Mail: pensions@haverinq.gov.uk,
or pensions@haverinq.gov.uk

Council's website:
www.haverinq.gov.uk/pages/services/pension-fund.aspx

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

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

person dealing with individual cases. You will find this on any letter issued by the Fund.

Tel: 01708 432192/432981
Fax: 01708 432078
E-Mail: pensions@haverinq.gov.uk
Council's website:
www.haverinq.gov.uk

There is also a number which you can dial direct and get through to the



Haverling

L O N D O N B O R O U G H

HYMANS  ROBERTSON

London Borough of Haverling Pension Fund

Funding Strategy Statement
February 2014

Steven Law
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP

LONDON BOROUGH OF HAVERING PENSION FUND

HYMANS ROBERTSON LLP

Funding Strategy Statement

- 1 Introduction
- 2 Basic Funding issues
- 3 Calculating contributions for individual Employers
- 4 Funding strategy and links to investment strategy
- 5 Key Risks and Controls

Appendices

- Appendix A – Responsibilities of key parties
- Appendix B – Regulatory framework
- Appendix C – The calculation of Employer contributions
- Appendix D – Actuarial assumptions
- Appendix E – Key Risks and Controls
- Appendix F – Glossary

1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the London Borough of Havering Pension Fund (“the Fund”), which is administered by London Borough of Havering (“the Administering Authority”).

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP and after consultation with the Fund’s employers and investment adviser. It is effective from 1 April 2014.

1.2 What is the London Borough of Havering Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees and those employed in similar or related bodies across the whole of the UK. The Administering Authority runs the London Borough of Havering Fund, in effect the LGPS for the London Borough of Havering area, to make sure it:

- receives the proper amount of contributions from employees and employers and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund’s assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives) and to their dependants (as and when members die) as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in [Appendix A](#).

1.3 Why does the Fund need a Funding Strategy Statement?

Employees’ benefits are guaranteed by the LGPS Regulations and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees’ contributions are fixed in those Regulations at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded and how employers or pools of employers pay for their own

liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions;
- transparency of processes;
- stability of employers' contributions; and
- prudence in the funding basis.

There are also regulatory requirements for an FSS, as given in [Appendix B](#).

The FSS is a summary of the Fund's approach to funding its liabilities and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues.

The FSS forms part of a framework of which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- the Fund's policy on admissions;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles (see Section 4).

1.4 How does the Fund and this FSS affect me?

This depends who you are:

- a member of the Fund, i.e. a current employee, former employee or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full;
- an employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund;
- an Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits with the other competing demands for council money; and a Council Tax payer: your council seeks to strike the balance above and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

- 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'/dependants' 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 to 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 the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers 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.

1.6 How do I find my way around this document?

In [Section 2](#) there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In [Section 3](#) we outline how the Fund calculates the contributions payable by different employers in different situations.

In [Section 4](#) we show how the funding strategy is linked with the Fund's investment strategy.

In the [Appendices](#) we cover various issues in more detail if you are interested:

- A. who is responsible for what;
- B. the regulatory background, including how and when the FSS is reviewed;
- C. some more details about the actuarial calculations required;
- D. the assumptions which the Fund actuary currently makes about the future; and
- E. what issues the Fund needs to monitor, and how it manages its risks;
- F. a [glossary](#) explaining the technical terms occasionally used here.

If you have any other queries please contact Debbie Ford in the first instance at e-mail address Debbie.Ford@haverling.gov.uk or on telephone number 01708 432569.

2 Basic Funding issues

(More detailed and extensive descriptions are given in [Appendix C](#)).

2.1 How does the actuary calculate a contribution rate?

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being built up from year to year, referred to as the “*future service rate*”; plus
- b) an adjustment for the difference between the assets built up to date and the value of past service benefits, referred to as the “*past service adjustment*”. If there is a deficit the past service adjustment will be an increase in the employer’s total contribution; if there is a surplus there may be a reduction in the employer’s total contribution. Any past service adjustment will aim to return the employer to full funding over an appropriate period (the “deficit recovery period”).

2.2 How is a deficit (or surplus) calculated?

An employer’s “funding level” is defined as the ratio of:

- the market value of the employer’s share of assets, to
- the value placed by the actuary on the benefits built up to date for the employer’s employees and ex-employees (the “liabilities”). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer’s deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

A larger deficit will give rise to higher employer contributions. If a deficit is spread over a longer period then the annual employer cost is lower than if it is spread over a shorter period.

2.3 How are contribution rates calculated for different employers?

The Fund’s actuary is required by the Regulations to report the *Common Contribution Rate*, for all employers collectively at each triennial valuation, combining items (a) and (b) above. This is based on actuarial assumptions about the likelihood, size and timing of benefit payments to be made from the Fund in the future, as outlined in [Appendix D](#).

The Fund’s actuary is also required to adjust the *Common Contribution Rate* for circumstances specific to each individual employer. The sorts of specific circumstances which are considered are discussed in [Section 3](#). It is this adjusted contribution rate which the employer is actually required to pay, and the rates for all employers are shown in the Fund’s Rates and Adjustments Certificate.

In effect, the *Common Contribution Rate* is a notional quantity, as it is unlikely that any employer will pay that exact rate. Separate future service rates are calculated for each

employer together with individual past service adjustments according to employer-specific circumstances.

Details of the outcome of the Actuarial Valuation as at 31 March 2013 can be found in the formal valuation report dated 31 March 2014, including an analysis at Fund Level of the *Common Contribution Rate*. Further details of individual employer contribution rates can also be found in the formal report.

2.4 What else might affect the employer's contribution?

Employer covenant and likely term of membership are also considered when setting contributions: more details are given in [Section 3](#).

For some employers it may be agreed to pool contributions, see [3.4](#).

Any costs of non ill-health early retirements must be paid by the employer, see [3.6](#). If an employer is approaching the end of its participation in the Fund then its contributions may be amended appropriately, so that the assets meet (as closely as possible) the value of its liabilities in the Fund when its participation ends.

Employers' contributions are expressed as minima with employers able to pay contributions at a higher rate. Account of the higher rate will be taken by the Fund Actuary at subsequent valuations.

2.5 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies. In addition, the new academies and maintained schools are tendering for bought in services (e.g. catering) which will extend further the admitted bodies following the New Fair Deal (October 2013).

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status and for other forms of school (such as Free Schools) to be established under the academies legislation. All such academies, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as "Scheduled Bodies", the Administering Authority has no discretion over

whether to admit them to the Fund and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies' membership in LGPS Funds.

Designating employers - employers such as foundation schools are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme. The New Fair Deal gives any council staff providing services under contract to certain maintained schools (including Foundation schools), who are TUPE'd to another contractor, the right to remain in the LGPS. This would be through an admission agreement.

Other employers are able to participate in the Fund via an admission agreement and are referred to as 'admission bodies'. These employers are generally those with a "community of interest" with another scheme employer – **community admission bodies** ("CAB") or those providing a service on behalf of a scheme employer – **transferee admission bodies** ("TAB"). CABs will include housing associations and charities while TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund's admissions policy are not met.

The extension of TABs, particularly for low value contracts, can expose both the scheme employers and the other employers in the Fund to risk. The risk from Academies is partly offset by the Secretary of State guarantee.

2.6 How does the Fund recognise that contribution levels can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services and/or greater pressure on council tax levels;
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education; and
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired or to their families after their death;

- The Fund must have the assets available to meet these retirement and death benefits which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees;
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund;
- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible;
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result; and
- Council contributions to the Fund should be at a suitable level to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see [3.1](#)). In deciding which of these techniques to apply to any given employer, the Fund will consider a risk assessment of that employer. A risk assessment will take into account such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

For instance, where an employer is considered relatively low risk then the Fund will permit greater smoothing (such as stabilisation or a longer deficit recovery period relative to other employers) which will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a more prudent funding basis or a shorter deficit recovery period relative to other employers). This is because of the higher probability that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see [Appendix B](#).

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, there are a number of methods which the Administering Authority may permit in order to improve the stability of employer contributions. These include, where circumstances permit:-

- capping of employer contribution rate changes within a pre-determined range (“stabilisation”);
- the use of extended deficit recovery periods;
- the phasing in of contribution rises or reductions;
- the pooling of contributions amongst employers with similar characteristics; and/or
- the use of some form of security or guarantee to justify a lower contribution rate than would otherwise be the case.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, with advice from the actuary, adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying contributions below the theoretical level

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than their underlying contribution rate. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the choice of method;
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution will lead to higher contributions in the long-term; and
- it will take longer to reach full funding, all other things being equal.

Overleaf (3.3) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

Section 3.4 onwards deals with various other funding issues which apply to all employers.

3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies	
Sub-type	Local Authority	Colleges	Academies	Open to new entrants	Closed to new entrants	Open to new entrants	Closed to new entrants
Basis used	Ongoing, assumes long-term Fund participation (see Appendix D)			Ongoing, but may move to “gilts basis” - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix D)	
Future service rate	Projected Unit Credit approach (see Appendix C – C.2)				Attained Age approach (see Appendix C – C.2)	Projected Unit Credit approach (see Appendix C – C.2)	Attained Age approach (see Appendix C – C.2)
Stabilised rate?	Yes - see Note (b)	No	No	No	No	No	
Maximum deficit recovery period – Note (c)	20 years	20 years	20 years	15 years	15 years	Outstanding contract term	
Deficit recovery payments – Note (d)	Monetary Amount or percentage of pay as appropriate						
Treatment of surplus	Covered by stabilisation arrangement	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Admin. Authority				Reduce contributions by spreading the surplus over the remaining contract term	
Phasing of contribution changes	Covered by stabilisation arrangement	3 years - Note (e)				None	
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract	
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)	

Cessation of participation: cessation debt payable

Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per [Note \(j\)](#).

Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see [Note \(j\)](#).

Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on a basis appropriate to the circumstances of cessation – see [Note \(j\)](#).

Note (a) (Basis for CABs and Designating Employers closed to new entrants)

In the circumstances where:

- the employer is a Designating Employer, or an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate or the employer is likely to lose its last active member within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority may vary the discount rate used to set the employer's contribution rate. In particular contributions may be set for an employer to achieve full funding on a more prudent basis (e.g. using a discount rate set equal to gilt yields) by the time the agreement terminates or the last active member leaves in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Designating Employers and Admission Bodies with no guarantor where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease or the Designating Employer alters its designation.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" (and may therefore be paying less than their theoretical contribution rate) should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see below) and;

- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies) or changes in the nature of the employer (perhaps due to Government restructuring).

On the basis of extensive modelling carried out for the 2013 valuation exercise (see [Section 4](#)) the Administering Authority has agreed a stabilisation mechanism with the Fund Actuary taking into account a number of factors.

The stabilisation criteria and limits will be reviewed at the 31 March 2016 valuation, to take effect from 1 April 2017. This will take into account the employer's membership profiles, the issues surrounding employer security and other relevant factors.

Note (c) (Deficit Recovery Periods)

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2014 for the 2013 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example where there were no new entrants.

Where stabilisation applies, the resulting employer contribution rate would be amended to comply with the stabilisation mechanism.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor.

Note (d) (Deficit Recovery Payments)

For employers where stabilisation is not being applied, the deficit recovery payments for each employer covering the three year period until the next valuation will be set as annual monetary amounts. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments as a percentage of pay instead, for instance where:

- there has been a significant increase in payroll due to auto-enrolment, or
- the employer has an increase in payroll due to significant transfers into their portion of the Fund.

Note (e) (Phasing in of contribution changes)

All phasing is subject to the Administering Authority being satisfied as to the strength of the employer's covenant.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, failure to pay contributions or to arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy employers)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

- a) The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT;
- b) The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status;
- c) The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion; and
- d) The new academy's initial contribution rate will be calculated using market conditions, the council funding position and membership data, all as at the day prior to conversion.
- e) Therefore, new academies may start with a deficit, depending on market conditions, which will be recovered over the same period as the council.

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies and will be reflected in a subsequent version of this FSS. In particular, policies (c) and (d) above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;

- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

For all new Transferee Admission Bodies, the security must be to the satisfaction of the Administering Authority as well as the letting employer and will be reassessed at least triennially.

The Administering Authority will only consider requests from Community Admission Bodies (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk to other employers in the Fund of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a “contractor”). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees’ Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see [Note \(j\)](#).

Employers which “outsource” have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. Clearly, as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor; subject to complying with the Administering Authority requirements regarding guarantees, indemnities or bonds to minimise the risk to the other employers in the Fund. In particular there are three different routes that such employers may wish to adopt (forms of ‘passthrough’ arrangements):

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under the stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor's contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and doesn't pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from;

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above;
- redundancy and early retirement decisions

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- A TAB reaching the end of their contract;
- The last active member ceasing participation in the Fund;
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;

- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

- a) For a TAB reaching the natural end of their contract the cessation valuation will normally be calculated using the ongoing basis as described in [Appendix D](#);
- b) For a TAB leaving the Fund prematurely (e.g. due to insolvency), the cessation valuation will normally be calculated using the “gilts cessation basis”, which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields and has added allowance for future improvements in life expectancy;
- c) For non-TAB bodies, where there is a guarantor for future deficits and contributions, the cessation valuation will normally be calculated using the ongoing basis as described in [Appendix D](#);
- d) Alternatively for non-TAB bodies, it may be possible to simply transfer the former Admission Body’s liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due and this is within the terms of the guarantee;
- e) For non-TAB bodies, where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a “gilts cessation basis”, which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.

Any shortfall arising from an early termination of an agreement would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look to any bond, indemnity or guarantee in place for the employer.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a “gilts cessation basis” and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases as the Body would have no contributing members.

All TABs would have a cessation valuation carried out at the normal end of the contract period. Any sums due to the Fund to meet shortfalls at this time would require immediate payment. These sums may be subject to a ‘pass-through’ arrangement with the Scheme employer but may not be covered by a bond, indemnity or guarantee.

3.4 Pooled contributions

From time to time the Administering Authority may set up pools for employers with similar characteristics. This will always be in line with its broader funding strategy. Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

3.5 Additional flexibility in return for added security

The Administering Authority may permit greater flexibility to the employer’s contributions if the employer provides added security to the satisfaction of the Administering Authority.

Such flexibility includes a reduced rate of contribution, an extended deficit recovery period or permission to join a pool with another body (e.g. the Local Authority).

Such security may include, but is not limited to:

- a suitable bond;
- a legally-binding guarantee from an appropriate third party;
- tripartite admission agreement with the contractor or scheme employer in place of a guarantee; and
- security over an employer asset of sufficient value.

The degree of flexibility given may take into account factors such as:

- the extent of the employer's deficit;
- the amount and quality of the security offered;
- the employer's financial security and business plan; and
- whether the admission agreement is likely to be open or closed to new entrants.

3.6 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

3.7 Ill health early retirement costs

Employers will usually have an 'ill health allowance'. The Fund monitors each employer's ill health experience on an ongoing basis. If the cumulative cost of ill health retirement in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases. Details will be included in each separate Admission Agreement.

3.8 Ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current insurance policy covering ill health early retirement strains, then:

- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged; and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage, premium terms or if the policy is ceased.

3.9 Employers with no remaining active members

In general, an employer ceasing in the Fund due to the departure of the last active member will pay a cessation debt on an appropriate basis (see [3.3, Note \(j\)](#)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of following situations will eventually arise:

- a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute

to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;

b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund; or

c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases as the employer would have no contributing members.

3.10 Policies on bulk transfers

Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and/or
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years and continues to receive contribution and other income. All of this must be invested in a suitable manner which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (SIP), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out after each actuarial valuation and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see [D3](#)) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see [B1](#)).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short term and even medium term, asset returns will fall short of this target. The stability measures described in [Section 3](#) will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and
- Stability – employers should not see significant moves in their contribution rates from one year to the next, and this will help to provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach (see [3.3 Note \(b\)](#)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in [3.3 Note \(b\)](#), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2017, it should be noted that this will need to be reviewed following the 2016 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, annually. It reports this to the regular Pensions Committee meetings, and also to employers through newsletters and Employers Forums.

5 Key Risk and Controls

The key types of risk specific to the FSS that have been identified are:

- Financial (including investment risk);
- Demographic;
- Regulatory; and
- Governance

The measures in place to control the key risks to the Fund are detailed in Appendix E.

Appendix A – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

A1 The Administering Authority should:-

- operate the Fund as per the LGPS Regulations;
- effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
- collect employer and employee contributions, and investment income and other amounts due to the Fund;
- ensure that cash is available to meet benefit payments as and when they fall due;
- pay from the Fund the relevant benefits and entitlements that are due;
- invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles (SIP) and LGPS Regulations;
- communicate appropriately with employers so that they fully understand their obligations to the Fund;
- take appropriate measures to safeguard the Fund against the consequences of employer default;
- manage the valuation process in consultation with the Fund's actuary;
- prepare and maintain a FSS and a SIP, after consultation;
 - notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
- monitor all aspects of the fund's performance and funding and amend the FSS/SIP as necessary and appropriate.

A2 The Individual Employer should:-

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- have a policy and exercise discretions within the regulatory framework;

- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

A3 The Fund Actuary should:-

- prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
- provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
- assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
- advise on the termination of Admission Bodies' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

A4 Other parties:-

- investment advisers (either internal or external) should ensure the Fund's SIP remains appropriate, and consistent with this FSS;
- investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP;
- auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection and sign off annual reports and financial statements as required;
- governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund; and
- legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures.

Appendix B – Regulatory framework

B1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

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

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2012) and to its Statement of Investment Principles.

This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’ contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

B2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to “consultation with such persons as the authority considers appropriate”, and should include “a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers”.

In practice, for the Fund, the consultation process for this FSS was as follows:

- a) A draft version of the FSS was issued to all participating employers on the 27th February for comment;
- b) Comments were requested by the 25th March 2014;
- c) Following the end of the consultation period the FSS was updated where required and then published, in March 2014.

B3 How is the FSS published?

The FSS is made available through the following routes:

- A copy sent by [post/e-mail] to each participating employer in the Fund;
- A copy sent to [employee/pensioner] representatives.
- A full copy is available on the Council's website. Our website follows the latest accessibility standards and meets, if not exceeds, the 'AA' (or 'AAA') standard of the Website Accessibility Initiative (WAI) Guidelines published by the World Wide Web Consortium (W3C). Text can be expanded in size and BrowseAloud is available to download.
- Copies sent to investment managers and independent advisers; and
- Copies made available on request.

B4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2016.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications;
- amendments affecting only one class of employer would be consulted with those employers; and/or
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the [Pensions Committee] and would be included in the relevant Committee Meeting minutes.

B5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Statement of Investment Principles, Governance Strategy and Communications Strategy. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund. These documents are available on request.

Appendix C – The calculation of Employer contributions

In [Section 2](#) there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

The calculations involve actuarial assumptions about future experience and these are described in detail in [Appendix D](#).

C1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

- a) the estimated cost of future benefits being accrued, referred to as the “future service rate”; plus
- b) an adjustment for the funding position of accrued benefits relative to the Fund’s solvency target, “*past service adjustment*”. If there is a surplus there may be a reduction in the employer’s contribution rate. If there is a deficit there will be an increase in the employer’s contribution rate, with the surplus or deficit spread over an appropriate period. The aim is to return the employer to full funding over that period. See [Section 3](#) for deficit recovery periods.

The Fund’s actuary is required by the regulations to report the *Common Contribution Rate*¹, for all employers collectively at each triennial valuation. It combines items (a) and (b) and is expressed as a percentage of pay; it is in effect an average rate across all employers in the Fund.

The Fund’s actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed “peculiar” to an individual employer². It is the adjusted contribution rate which employers are actually required to pay. The sorts of “peculiar” factors which are considered are discussed below.

In effect, the *Common Contribution Rate* is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific past service deficit spreading and increased employer contribution phasing periods.

C2 How is the Future Service Rate calculated?

The future service element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members’ **future** service in the Fund. This is based upon the cost (in excess of members’ contributions) of the benefits which employee members earn from their service each year.

The future service rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The calculation is on the “ongoing” valuation basis (see [Appendix D](#)), but where it is considered appropriate to do so the Administering Authority reserves the right to set a

future service rate by reference to liabilities valued on a more prudent basis (see [Section 3](#)).

¹ See LGPS (Administration) Regulations 36(5).

² See LGPS (Administration) Regulations 36(7).

The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. Employers should note that it is only Admission Bodies and Designating Employers that may have the power not to automatically admit all eligible new staff to the Fund, depending on the terms of their Admission Agreements and employment contracts.

a) Employers which admit new entrants

These rates will be derived using the "Projected Unit Method" of valuation with a one year period, i.e. only considering the cost of the next year's benefit accrual and contribution income. If future experience is in line with assumptions, and the employer's membership profile remains stable, this rate should be broadly stable over time. If the membership of employees matures (e.g. because of lower recruitment) the rate would rise over time.

b) Employers which do not admit new entrants

To give more long term stability to such employers' contributions, the "Attained Age" funding method is normally adopted. This measures benefit accrual and contribution income over the whole future anticipated working lifetimes of current active employee members.

Both approaches include expenses of administration to the extent that they are borne by the Fund, and include allowances for benefits payable on death in service and ill health retirement.

C3 How is the Solvency / Funding Level calculated?

The Fund's actuary is required to report on the "solvency" of the whole Fund in a valuation which should be carried out at least once every three years. As part of this valuation, the actuary will calculate the solvency position of each employer.

'Solvency' is defined to be the ratio of the market value of the employer's asset share to the value placed on accrued benefits on the Fund actuary's chosen assumptions. This quantity is known as a funding level.

For the value of the employer's asset share, see [C5](#) below.

For the value of benefits, the Fund actuary agrees the assumptions to be used with the Administering Authority – see [Appendix D](#). These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see [Section 3](#)).

C4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

- past contributions relative to the cost of accruals of benefits;
- different liability profiles of employers (e.g. mix of members by age, gender, service vs.salary);
- the effect of any differences in the valuation basis on the value placed on the employer's liabilities;
- any different deficit/surplus spreading periods or phasing of contribution changes;
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the difference between actual and assumed amounts of pension ceasing on death; and/or
- the additional costs of any non ill-health retirements relative to any extra payments made;over the period between each triennial valuation.

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

C5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

- the actual timing of employer contributions within any financial year;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix D – Actuarial assumptions

D1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the measured value of future service accrual and past service liabilities, and hence the measured value of the past service deficit. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the “basis”. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower liability values and lower employer costs. A more prudent basis will give higher liability values and higher employer costs.

D2 What basis is used by the Fund?

The Fund’s standard funding basis is described as the “ongoing basis”, which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see [Note \(a\)](#) to 3.3.

D3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund’s investments. This “discount rate” assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds (“gilts”). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2013 and setting contribution rates effective from 1 April 2014, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.8% per annum greater than gilt yields at the time of the valuation (this is the same as that

used at the 2010 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2016. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, the salary increase assumption at the 2013 valuation has been set to the retail prices index (RPI). This is a change from the previous valuation, which assumed a two year restriction at 1% per annum followed by longer term growth at CPI plus 1.5% per annum (equivalent to RPI plus 1% per annum at the time).

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. This change was allowed for in the valuation calculations as at 31 March 2010. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we propose a reduction of 0.8% per annum. This is a larger reduction than at 2010, which will serve to reduce the value placed on the Fund’s liabilities (all other things being equal).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary. The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the CMI2010 “Peaked” projections with a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a higher allowance for future improvements than was made in 2010.

The combined effect of the above changes from the 2010 valuation approach is broadly neutral when considering the average number of years of life expectancy. The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members' benefits.

e) General

The same financial assumptions are adopted for all employers, in deriving the past service deficit and the future service rate: as described in (3.3), these calculated figures are translated in different ways into employer contributions, depending on the employer's circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix E – Key risks and controls

E1 Financial risks

Risk	Summary of Control Mechanisms
<p>Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.</p>	<p>Only anticipate long-term return on a relatively prudent basis to reduce risk of underperforming.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p>
<p>Inappropriate long-term investment strategy.</p>	<p>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.</p> <p>Chosen option considered to provide the best balance.</p> <p>Engage an independent investment advisor.</p>
<p>Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.</p>	<p>Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context.</p> <p>Inter-valuation monitoring, as above.</p> <p>Some investment in bonds helps to mitigate this risk.</p>
<p>Active investment manager under-performance relative to benchmark.</p>	<p>Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.</p>

Risk	Summary of Control Mechanisms
Pay and price inflation significantly more than anticipated.	<p>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Some investment in bonds also helps to mitigate this risk.</p> <p>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p>
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions – please refer back to Section 3.1 .
Orphaned employers give rise to added costs for the Fund	<p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).</p>
Academy school ceases due to failure.	The Fund seeks a cessation valuation and makes a claim to the Secretary of State for Education under the Academies guarantee.
Admission Bodies failure.	The Fund will seek to have in place a bond/indemnity and/or 'pass-through' arrangement with scheme employer or a tripartite admission agreement.

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	<p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the</p>

Risk	Summary of Control Mechanisms
	assumptions underpinning the valuation.
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, seek monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	<p>Employers are charged the extra cost of non ill-health retirements following each individual decision.</p> <p>Employer ill health retirement experience is monitored, and insurance is an option.</p>
Reductions in payroll causing insufficient deficit recovery payments	<p>In many cases this may not be sufficient cause for concern and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).</p> <p>For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.</p>

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The results of the most recent reforms have been built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.</p>

C5 Governance risks

Risk	Summary of Control Mechanisms
<p>Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.</p>	<p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions (under Regulation 38) between triennial valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p>
<p>Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in some way</p>	<p>The Administering Authority maintains close contact with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>
<p>Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.</p>	<p>The Administering Authority requires employers sponsoring admitted bodies to inform it of forthcoming changes.</p>
<p>An employer ceasing to exist with insufficient funding or adequacy of a bond.</p>	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, wherever possible (see Notes (h) and (j) to 3.3).</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p> <p>Where permitted under the regulations requiring a bond to protect the Fund from</p>

Risk	Summary of Control Mechanisms
	<p>various risks.</p> <p>Requiring new Community Admission Bodies to have a guarantor.</p> <p>Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).</p>

Appendix F – Glossary

Actual Contribution Rate	The contribution rate payable by each individual employer . For more details (see 3.3).
Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of liabilities . The main assumptions will relate to the discount rate , salary growth, pension increases and longevity. More prudent assumptions will give a higher liability value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers which voluntarily participate in the Fund, so that their employees and ex-employees are members . There will be an Admission Agreement setting out the employer's obligations. For more details (see 2.5).
Bond/Indemnity	<p>To cover early termination of a contract due to, but not limited to,</p> <ul style="list-style-type: none">• the funding strain arising from the early payment of liabilities that will arise as a consequence of redundancy if the Employer goes into liquidation, insolvency or winds up. Employees over age 55 are eligible for immediate payment of pension in the event of being made redundant;• any general funding shortfall, arising from variations between experience and assumptions used when determining the ongoing Employer's contribution rate; and• a provision to cover the potential liability due to adverse market conditions over the period until the next actuarial valuation. <p>This bond does not cover any final cessation payments at the end of a contract.</p>
Closed to new entrants	Only existing LGPS members are covered by the admission agreement and hence are eligible to participate in the Fund (" <i>Closed Agreement</i> ").
Cessation Valuation	At the natural end of a contract or when the last active member of an Employer retires, a cessation valuation is carried out to determine the final contribution due from the Employer. The final contribution due may be subject to a 'pass-through' arrangement with the scheme employer.
Common contribution rate	The Fund-wide future service rate plus past service adjustment . It should be noted that this will differ from the actual contributions payable by individual employers .

Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Deficit	The shortfall between the assets value and the liabilities value. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).
Deficit repair/recovery period	The target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual past service adjustment (deficit repair contribution), and vice versa.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a liabilities value which is consistent with the present day value of the assets, to calculate the deficit . A lower discount rate gives a higher liabilities value, and vice versa. It is similarly used in the calculation of the future service rate and the common contribution rate .
Employer	An individual participating body in the Fund, which employs (or used to employ) members of the Fund. Normally the assets and liabilities values for each employer are individually tracked, together with its future service rate at each valuation .
Funding level	The ratio of assets value to liabilities value: for further details (see 2.2).
Future service rate	The actuarially calculated cost of each year's build-up of pension by the current active members , excluding members' contributions but including Fund administrative expenses. This is calculated using a chosen set of actuarial assumptions .
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider

the employer's **covenant** to be as strong as its guarantor's. This may be evidenced by a Combined Committee report, tripartite admission agreement or separate guarantee agreement subject to a financial review.

Letting employer

An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy. The letting employer will meet the actuarial fees for setting contribution rates and any bond reviews.

Liabilities

The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.

LGPS

The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.

Maturity

A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

Members

The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

Open to new entrants

New recruits as well as existing LGPS members are covered by the Admission agreement and hence are eligible to participate in the Fund ("Open Agreement").

Pass-through

A risk sharing agreement between the letting employer and the contractor. Further details can be found in [3.3 Note \(i\)](#).

Past service adjustment

The part of the employer's annual contribution which relates to past service **deficit** repair.

Pooling	Employers may be grouped together for the purpose of calculating contribution rates, so that their combined membership and asset shares are used to calculate a single contribution rate applicable to all employers in the pool. A pool may still require each individual employer to ultimately pay for its own share of deficit , or (if formally agreed) it may allow deficits to be passed from one employer to another. For further details of the Fund's current pooling policy (see 3.4).
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's members , ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its maturity also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation . This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Solvency	In a funding context, this usually refers to a 100% funding level , ie where the assets value equals the liabilities value.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Theoretical contribution rate	The employer's contribution rate, including both future service rate and past service adjustment , which would be calculated on the standard actuarial basis , before any allowance for stabilisation or other agreed adjustment.
Valuation	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2013), but can be

approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.



Haverling
LONDON BOROUGH

STATEMENT OF INVESTMENT PRINCIPLES

JULY 2013

STATEMENT OF INVESTMENT PRINCIPLES

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

Background

Legislation

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

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

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

Purpose and Scope of Scheme

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

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

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

Pensions Committee

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

In particular, the Pensions Committee has duties that include:

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

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

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

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

Fund Objective

The purpose of the Fund is:

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

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

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

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

Investment Objectives

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

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

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

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

- Growth: The Committee recognises that a high allocation to "growth" assets/strategies is needed to achieve the long-term objective.
- Control: The Committee recognises that diversification can provide some protection against changing market conditions but that systemic risk cannot be diversified. The Committee therefore believes that greater dynamism within the investment strategy is desirable in order that the underlying strategy can be changed in response to changing market conditions
- Income: The Committee recognises the emerging gap between income and benefit expenditure and hence the need to draw on investment income.

All day to day investment decisions have been delegated to a number of authorised investment managers. The strategic benchmark is reflected in the choice and mix of funds in which the Fund invests. The Fund's benchmark is consistent with the Pensions Committee's collective view on the appropriate balance between seeking an

enhanced long-term return on investments and accepting greater short-term volatility and risk.

Asset Allocation

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

Asset class	Interim Allocation Dec 12	Current Allocation Mar 13	Target Allocation July 13
UK/Global Equity	55%	24	25%
Multi Asset strategies	-	35	35%
Absolute Return strategies	15%	15	15%
Property	10%	6	5%
Gilts/Investment grade bonds	20%	20	17%
Infrastructure	0%	0	3%

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

The Committee has agreed to introduce an allocation to local infrastructure. The prospective investment is an amount of up to £15 million and based on 31 March 2013 levels would be rounded to 3%. Allocations to infrastructure will be introduced as opportunities are identified. Each opportunity will be funded through the payment of additional contributions to the Fund rather than by reallocating existing assets.

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

Choosing Investments

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

Mandate	% of Interim Allocation Dec 2012	% of Target Allocation Jul 2013	Manager	Benchmark	Target
Property	10%	5%	UBS	IPD All balanced (property) Fund's median	To outperform the benchmark
UK Equities (Active)	17%	0%	Standard Life	FTSE All Share	+2% net of fees
Global Equities (Active)	17%	17%	Baillie Gifford	MSCI All Countries Index	+2.5% net of fees
Global Equities (Passive)	21%	8%	State Street Global Assets	Composite	To track the benchmark (gross of fees)
Investment grade bonds	20%	17%	Royal London Asset Management	Composite	+0.75% net of fees
Absolute Return	15%	15%	Ruffer	UK bank deposit rate	To outperform the benchmark (net of fees)
Multi Asset	0%	20%	Barings	UK bank deposit rate	To outperform the benchmark (net of fees)
Multi Asset	0%	15%	Baillie Gifford	UK bank deposit rate	To outperform the benchmark (net of fees)
Infrastructure	0%	3%	Unallocated	-	-

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

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

Fees

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

Investment Responsibilities

Responsibilities of the Pensions Committee

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

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

- Ensuring compliance with statutory requirements and the investment principles set out in this document and reporting any breaches to the Pensions Committee;
- Management of surplus cash, which is lent through the money markets in accordance with the Council's Treasury Management Code of Practice. Performance is measured against the 7-day London Interbank Bid (LIBID) rate;

- Investment accounting and preparing the annual report and accounts of the fund;
- Ensuring proper resources are available for the Council's responsibilities to be met.

The Investment Managers are responsible for:

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

The Independent Custodian is responsible for:

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

The Actuary is responsible for:

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

The Independent Measurers are responsible for:

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

The Investment Adviser is responsible for:

- Advising on the investment strategy of the fund and its implementation;
- Advising on the selection of investment managers, and the custodian;

- Providing investment information, investment advice¹ and continuing education to the Pensions Committee and the executive officers;
- Independent monitoring of the investment managers and their activities.

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

The Auditor

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

The Historic Position of Fund

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

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

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

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

Review

- The investment strategy is reviewed by the Pensions Committee, at least every three years following the actuarial valuation results or when changes are required.
- The current review is based on the Actuarial Valuation 2010, a subsequent interim assessment of the valuation in 2012 and a review and on-going advice on asset allocation from the Fund's Investment Adviser during 2012.

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

Reporting

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

Risk

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

Funding risks:

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

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

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

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

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

Asset risks

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

The Committee manages asset risks as follows:

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

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

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

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

Other provider risk

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

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

Investments

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

investments and the advice of persons properly qualified (including officers) on investment matters.

Types of Investment

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

The investment regulations also specify certain limitations on investments.

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

Investment Management

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

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

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

Investment Manager Controls

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

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

Social Environmental and Ethical Considerations

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

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

Corporate Governance and Voting Policy

Corporate Governance Policy

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

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

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

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

The Pensions Committee will, where appropriate,

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

Stock Lending

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

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

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

Consultation and Publication

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

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

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

MYNERS Principles for Investment Decision Making

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

The Action the Council has taken to meet the recommendations made in the Myner's report has been updated to March 2013 and is available as an appendix to this statement.

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

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

<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Havering Position/Compliance</u>
	12) Employees appointed as member representatives should be allowed adequate time off from normal duties to attend meetings.	Havering Council's conditions of service permits special leave up to a number of specified days for employees who act as a member of a publicly elected body.
	13) Papers and related documentation should be clear and comprehensive, and circulated to members of the committee sufficiently in advance of the meeting.	Committee policy established and ensures that target dates for report clearance and agenda dispatch targets are met. Members receive agendas five working days prior to meeting date.
	14) The CFO should be given the responsibility for the provision of training plan and ensure that members are fully aware of their statutory & fiduciary duties.	The Training Plan is incorporated within the Business Plan and includes a log of training undertaken and attendance. Indicative future training plans are also included in the business plan.
	15) The CFO should ensure that a medium term business plan is created and contains: financial estimates for the investment and administration of the fund, appropriate provision for training, major milestones and issues to be considered, key targets and method of measurement. The business plan should be submitted to the committee for consideration.	The Business Plan is considered by the Pensions Committee and contains: financial estimates for the investment and administration of the fund, appropriate provision for training, major milestones and issues to be considered, key targets and method of measurement. The business plan also incorporates the training plan.
	16) Business plan to review the level of internal and external resources the committee needs to carry out its functions.	Medium term Business Plan is considered by the Pensions Committee. The business plan includes the outcome of an internal review of resources, when appropriate.
	17) Administering Authorities are required to prepare, publish and maintain statements of compliance against a set of good practice principles for scheme governance and stewardship (Reg 31 2008 regulations).	The Pension Fund prepares, publishes and maintains a statement of compliance against a set of good practice principles. The statement shows the extent to which the administering authority complies with the principles and is reviewed annually.
	18) Administering authorities are required to publish a Governance Compliance Statement in accordance with CLG guidance.	The Governance Compliance Statement is available on the Council's website: www.havering.gov.uk (under Council and democracy, council budgets and spending, then Pension Fund) and is included in the Pension Fund Annual Report.

<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Having Position/Compliance</u>
	19) The fund's Administration Strategy documents should refer to all aspects of the committee's activities relevant to the relationship between the committee and the employing authorities.	In line with regulations, the fund currently does not have an administration strategy; consideration of adopting this strategy is reviewed regularly.
<p>2. Clear objectives</p> <p>(a) An overall investment objective (s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and these should be clearly communicated to advisors and investment managers.</p>		SUMMARY: FULLY COMPLIANT
	The committee should:	As part of the Valuation process consideration is given, with full consultation of the fund's actuary, to :
	1) demonstrate that in setting an overall objective of the fund it has considered: the fund's liabilities in the context of expected net contribution inflows; the adequacy of the fund's assets to meet its liabilities; the maturity profile of the fund's liabilities and its cash flow situation.	the fund's liabilities in the context of the expected net contribution inflows; adequacy of the assets to meet its liabilities; maturity profile and its cash flows;
	2) consider the nature of membership profiles and financial position of the employers in the fund and decide, on the advice of actuaries, whether or not to establish sub funds.	membership profiles; financial position of the employers and whether or not to establish a sub fund;
	3) seek to include the achievement of value for money and efficiency in its objectives and all aspects of its operation	value for money;
4) with the CFO need to give consideration to the general and strategic impact of the funding levels and employer contribution rates on Council tax levels over time. The responsibility of the actuary to keep employer contribution rates as constant as possible over time is the primary means of achieving this.	and the general and strategic impact of the funding levels and employer contribution rates on Council tax levels over time. The Fund's investment policies and objectives are laid out in the Funding Strategy Statement (FSS).	

<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Having Position/Compliance</u>
	5) consider its own appetite for risk and that of the employers in the fund when considering advice on the mix of asset classes and on active and passive management. Consider all assets classes currently available to members.	The Pensions Committee considers, in consultation with the fund's investment advisor, its own appetite for risk when setting the investment strategy and considers the mix of asset classes and weighs up the risk v return in considering whether the assets are managed on a passive or active basis. The Investment Strategy currently includes a mix of different asset classes which are managed actively and passively.
	6) take proper advice and should appoint advisors in open competition and set them clear strategic investment performance objectives. The committee should state how the advisors' overall performance will be measured and the relevant short, medium and longer term performance measurement framework. All external procurement should be conducted within the EU procurement regulations and the administering authority's own procurement rules.	The Pensions Committee appoints external advisors in line with EU procurement rules and the administering authorities own procurement rules. The committee states how performance is to be measured for the advisors and a service review is undertaken and reported to the committee annually. The contract for the external advisor is tendered on a five year cycle enabling performance to be measured in a competitive environment.
	7) also demonstrate that it has sought proper advice, including from specialist independent advisors, as to how this might be expressed in terms of the expected or required annual return on the fund and how it should be measured against stated benchmarks.	After full consultation with the Council's Actuary and Investment Advisers a clear financial and therefore fully measurable investment objective for the fund has been set.
	8) consider when it would be desirable to receive advice based on an asset/liability study and make appropriate arrangements.	The Pensions Committee commission the fund's investment advisor and actuary to undertake an asset/liability study as appropriate, when compiling the investment strategy.

<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Hovering Position/Compliance</u>
	9) evaluate the split between equities and bonds before considering any other asset class. It should state the range of investments it is prepared to include and give reasons why some asset classes may have been excluded. Strategic asset allocations decision should receive a level of attention (and, where relevant, advisory or management fees) that fully reflects the contribution they can make towards achieving the fund's investment objectives.	All asset classes were considered as part of the investment strategy review process and the range of investments are included in the Fund's SIP.
	10) have a full understanding of the transaction-related costs incurred, including commissions, and have a strategy for ensuring that these costs are properly controlled. 11) Understanding transaction-related costs should be a clear consideration in letting and monitoring a contract and where appropriate, independent and expert advice should be taken, particularly in relation to transition management.	Transaction costs are disclosed in the statement of accounts. Understanding transaction costs are considered and where appropriate expert advice would be sought. Transaction costs are considered in the decision making process when any changes to the investment strategy are under discussion.
	12) The use of peer group benchmarks should be for comparison purposes only and not to define the overall fund objective.	The committee uses the services of WM Performance Measurers for independent monitoring of performance against benchmarks. Peer group benchmark performance is used for comparison purposes only.

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

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

<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Havering Position/Compliance</u>
	<p>12) The Annual Report of the pension fund should include an overall risk assessment in relation to each of the fund's activities and factors expected to have an impact on the financial and reputational health of the fund. This could be done by summarising the contents of a regularly updated risk register. An analysis of the risks should be reported periodically to the committee, together with necessary actions to mitigate risk and assessment of any residual risk.</p>	<p>The Pension Fund currently does not have an overall risk assessment in the form of a risk register, although on-going risks are considered as part of the monitoring process. ACTION: Monitoring risk in the form of a risk register is being developed.</p>

<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Hovering Position/Compliance</u>
<p>4. Performance assessment</p> <p>a) Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors</p> <p>b) Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision- making body and report on this to scheme members</p>	<p><u>Investments</u></p> <p>The committee should:</p> <p>1) explicitly consider, for each asset class invested, whether active or passive management would be more appropriate; where it believes active management has the potential to achieve higher returns, set both targets and risk controls that reflect this, giving managers the freedom to pursue genuinely active strategies; if setting limits on divergence from an index, ensure that they reflect the approximations involved in index construction and selection.</p> <p>2) explicitly consider, in consultation with its investment manager (s), whether the index benchmarks are appropriate, and in particular, whether the construction of the index creates incentives to follow sub-optimal investment strategies</p> <p>3) Where active management is selected, divergence from a benchmark should not be so constrained as to imply index tracking (i.e. passive management) or so wide as to imply unconstrained risk.</p>	<p>SUMMARY: FULLY COMPLIANT</p> <p>During the investment strategy review the Pension Fund considered and adopted its own asset allocation in full consultation with the fund's investment advisors, it considered and initially adopted full active management with appropriate targets and risk controls set. In light of the market events that followed, the Pensions Committee, after assessing the risks, agreed to reduce some of the active management and switch to passive management in relation to UK and overseas equities.</p> <p>Benchmarks are set in agreement with the fund's investment manager (s)</p>

<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Havering Position/Compliance</u>
	4) Performance targets in relation to benchmark should be related to clear time periods and risk limits and monitoring arrangements should include reports on tracking errors.	A performance monitoring report are presented to the committee quarterly and covers the latest quarter, rolling one year and three year performance. Where appropriate fund managers will report tracking errors. Each Fund Manager presents their performance reports to the committee on alternate quarters, on each other alternate quarters they meet with officers. This is with the exception of the passive equity manager and the absolute return manager who reports to officers and the committee once a year.
	5) Although returns will be measured on a quarterly basis a longer time frame (three to seven years) should be used to assess the effectiveness of the fund management arrangements and review the continuing compatibility of the asset/liability profile. 6) Investment activity in relation to benchmark should be monitored regularly to check divergence and any impact on overall asset allocation strategy.	The asset /liability profile is considered at each triennial valuation. In addition to officer reports, the investment adviser monitors and reports quarterly to the Pension Committee on performance, personnel, process and organisational issues of fund managers. The fundamental risk of the investment strategy not delivering the required – net of fee- return is measured quarterly in terms of the overall financial objective.
	7) Returns should be obtained from specialist performance agencies independent of the fund managers.	The Pension Fund uses the services of WM performance measurers who independently report against the overall fund and individual manager returns on a quarterly basis. WM returns are monitored against fund manager returns and discrepancies are investigated. WM also produce an annual performance report.

<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Having Position/Compliance</u>
	<p>8) Investment manager returns should be measured against their agreed benchmark and variations should be attributed to asset allocation, stock selection, sector selection and currency risk, all of which should be provided by an independent performance measurement agency</p> <p>9) In addition to the overall fund returns the return achieved in each asset class should be measured so that the impact of different investment choices can be assessed (e.g. equities by country, fixed interest by country and type etc.).</p> <p>10) The use of peer group benchmarks (such as CIPFA/WM) may not be appropriate for directing a mandate of a manager insofar as they infer a common asset liability structure or investment requirement. Such benchmarks can be used for comparative information.</p>	<p>Each quarter, WM measure fund manager returns against their agreed benchmarks and variations are attributed to asset allocation and stock selection. Relative risk is also measured and the degree of the manager deviating from the benchmark is included in the WM report.</p> <p>The Pension Fund does not measure fund returns on an asset class basis because the focus is on how individual manager performance contributes to the overall fund performance. However the weightings in each asset class are monitored and reported.</p> <p>WM performance returns against peer group benchmarks are used for comparison purposes only.</p>
	<p>11) The mandate represents the instruction to the manager as to how the investment portfolio is to be managed, covering the objective, asset allocation, benchmark, flexibility, risk parameters, performance targets and measurement timescales.</p> <p><u>Advisors</u></p> <p>12) The committee should devise a performance framework against which to measure the cost, quality and consistency of advice received from its actuaries. It is advisable to market test the actuarial service periodically.</p>	<p>The mandate agreed with the investment manager includes how it is to be managed and covers the objective, asset allocation, benchmark, flexibility, risk parameters, performance targets and measurement timescales.</p> <p>Annual service assessments are undertaken for the services provided the Fund's actuary and advisors. They are measured against a set of criteria adopted by the Pension Committee.</p>
	<p>13) It is necessary to distinguish between qualitative assessments (which are subjective) and quantitative reviews which require the compilation of series of data and are therefore more long term by nature.</p>	

<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Havering Position/Compliance</u>
	<p>14) Consultants should be assessed on a number of issues including the appropriateness of asset allocation recommendations, the quality of advice in choosing benchmarks and any related performance targets and risk profiles. The quality and appropriateness of the investment managers that are recommended and the extent to which advisors are proactive and consistent in recommending subsequent changes.</p> <p>15) When assessing managers and advisors it is necessary to consider the extent to which decisions have been delegated and advice heeded by officers and elected members</p>	
	<p>Decision-making bodies</p> <p>16) The process of self-assessment involves both officers and members of the committee reviewing a range of items, including manager selection, asset allocation decisions, benchmarking decisions, employment of consultants and best value outcomes;</p> <p>17) The objective of the reviews would be to consider whether outcomes were as anticipated, were appropriate, or could have been improved.</p> <p>18) The committee should set out its expectations of its own performance in its business plan. This could include progress on certain matters, reviews of governance and performance and attendance targets. It should include standards relating to administration of the committee's business such as:</p>	<p>Pensions Committee performance is reviewed as part of the Annual Report. Performance can be measured by the success or otherwise of the strategy put in place and the individual performance of investment managers appointed by the committee, and full compliance with governance requirements including attendance at all training sessions.</p> <p>The Business Plan sets out the expectations of the committee.</p>

<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Havering Position/Compliance</u>
	<p>19) Attainment of standards set down in CIPFA's soon to be published knowledge and skills framework; achievement of required training outcomes; achievement of administrative targets such as dates for issuing agendas and minutes.</p>	<p>Achievement of training outcomes is self-assessed by the Pensions Committee. Targets such as dates for issuing agendas and minutes are strictly adhered to. Achievement of administrative targets is reported in the Pension Fund Annual report.</p>
	<p>20) This assessment should be included in the fund's Annual Report.</p>	<p>The assessment of the committee expectations and training are included in the Annual Report.</p>

<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Having Position/Compliance</u>
5. Responsible ownership Administering authorities should: a) adopt, or ensure their investment managers adopt, the Institutional Shareholders' committee Statement of Principles on the responsibilities of shareholders and agents b) include a statement of their policy on responsible ownership in the statement of investment principles c) report periodically to scheme members on the discharge of such responsibilities.		SUMMARY: FULLY COMPLIANT
	1) Policies regarding responsible ownership must be disclosed in the statement of investment principles which must be contained the annual report.	Policies on Social Environmental and ethical considerations are disclosed in the SIP, a copy of which is also included in the Pension Fund Annual Report.
	2) Responsible ownership should incorporate the committee's approach to long term responsible investing including its approach to consideration of environmental, social and governance issues.	The Pension Committee has considered socially responsible investments and the view has been taken that non-financial factors should not drive the investment process to the detriment of the financial return of the fund.
	3) The committee should discuss the potential for consideration of environmental, social and governance issues to add value, in accordance with its policies on responsible investing, when selecting investment managers and in discussing their subsequent performances.	Over the long term, the Pensions Committee requires the investment managers to consider, as part of the investment decisions, socially responsible investment issues and the potential impact on investment performance.
	4) Authorities may wish to consider seeking alliances with either other pension funds in general, or a group of local authority pension funds, to benefit from collective size where there is a common interest to influence companies to take action on environmental, social and governance issues e.g. LAPFF.	
5) It is important to ensure that through the terms of an explicit strategy that an authority's policies are not overridden, negated or diluted by the general policy of an investment manager.	The SIP is distributed to fund managers so that they are aware of the overall strategy. Fund managers are included in the consultation process if there are major changes.	

<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Having Position/Compliance</u>
	<p>6) Where the exercise of voting action is separated from the investment manager, authorities should ensure that the appropriate investment decision is taken into account by reference to those appointed to manage the investments. Authorities may use the services of external voting agencies and advisors to assist compliance in engagement. Measuring effectiveness is difficult but can only be achieved by open monitoring of action taken</p> <p>7) The committee should ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company that is acceptable within the committee's policy.</p>	<p>Fund managers have been given delegated authority to vote in accordance with their proxy voting policies. Fund Managers report voting activity quarterly and made available for the Pensions Committee to review.</p> <p>Consideration of compliance will need to be given for future appointments. For existing investment managers, where applicable they are compliant or work is well underway to becoming compliant.</p>
	<p>8) The committee should ensure that investment consultants adopt the institutional shareholder committee (ISC) statement of practice relating to consultants.</p> <p>9) The ISC's Statement of Principles on the responsibilities of shareholders and agents sets out best practice in relation to their responsibilities in respect of investee companies, in that they will: set out their policy on how they will discharge their responsibilities; monitor the performance of, and establish, where necessary, a regular dialogue with investee companies; intervene where necessary; evaluate the impact of their engagement and report back to clients and beneficial owners.</p> <p>10) The United Nations Environment Programme Finance Initiative (UNEP FI) has published Principles for Responsible Investment (UNPRI) and has encouraged asset owners and asset managers to sign up and commit to the principles</p>	<p>The ISC is a voluntary code of practice and applies to institutional investors on a comply-or-explain basis. Currently all of the funds investment consultants have adopted the voluntary code.</p>

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

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

<u>Principle</u>	<u>Best Practice Guidance (CIPFA)</u>	<u>Havering Position/Compliance</u>
	<p>10) set out the administering authority's policy on: the provision of information and publicity about the scheme to members, representatives of members and employing authorities; the format, frequency and method of distributing such information or publicity; the promotion of the scheme to prospective members and their employing authorities.</p>	<p>The Communication Statement includes: the administering authorities' policy on provision of information and publicity about the scheme, it also includes the format, frequency and method of distribution of such information.</p>

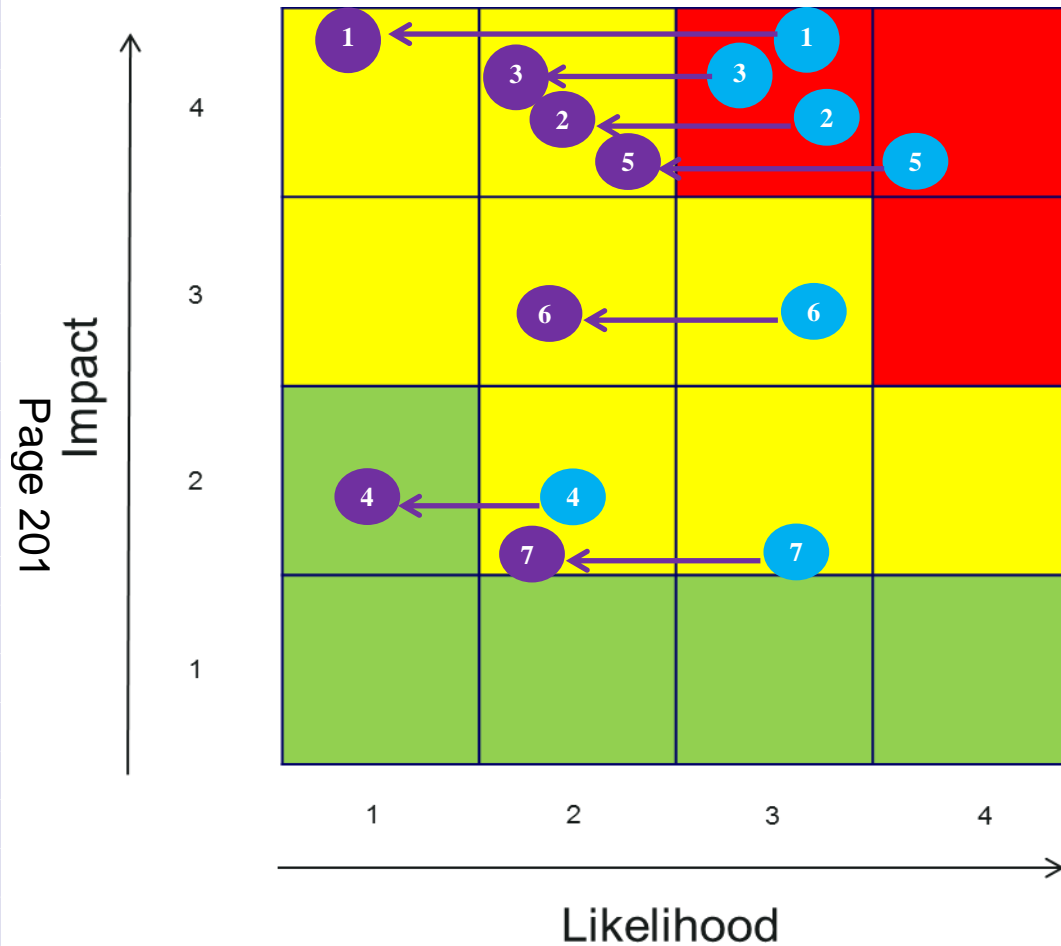
London Borough of Havering

Pension Risk Register

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Inherent and Residual Risk Score Matrix

Inherent and Residual Risk Score Matrix



Ref	Risk Title
1	Inaccurate three yearly actuarial valuation
2	Incorrect / Inappropriate Investment Strategy
3	Failure of investments to perform in-line with growth expectations
4	Failure to comply with legislative requirements
5	Inability to manage/ govern the Pension Fund and associated services
6	Failure to effectively "sign up" new employers / members
7	Pension Fund Payment Fraud



Definitions:

Inherent Risk Score: The inherent risk score is the assessment of a risk in terms of impact and likelihood, without consideration of the mitigations in place.

Residual Risk Score: This is the assessment of the risk, at the current point in time, having considered the mitigations in place.

Pension Fund Risk Register

Ref	Risk Title	Cause & Effect	Inherent Score	Mitigations & Action to take forward	Residual Score	Risk Owner
1	Inaccurate three yearly actuarial valuation	<p>Causes:</p> <ul style="list-style-type: none"> ▪ Inappropriate assumptions used by actuary in calculations for valuation ▪ Poor quality data provided from LB of Havering ▪ Personal data not maintained to a high standard (gaps/incorrect) ▪ Actuary's own assumptions are not robust or reflective <p>Effects:</p> <ul style="list-style-type: none"> ▪ Deficit position worsens ▪ Employers pay/ continue to pay incorrect contribution percentages ▪ Increase in employer contributions ▪ Potential for Council Tax increases ▪ More investment risk may be 	<p>Impact 4 Likelihood 3</p>	<p>Mitigations in place:</p> <ul style="list-style-type: none"> ▪ Robust, open tender process in place for appointment of actuary ▪ Valuation completed by a qualified professional actuary ▪ Some assumptions for valuation dictated by statute ▪ Actuarial assumptions are challenged by officers ▪ Valuation assumptions subject to External Audit review ▪ Local Government benchmarking/comparisons of assumptions ▪ Annual review of actuary performance undertaken by Pensions Committee <p>Actions to take forward:</p> <p>None identified at this point.</p>	<p>Impact 4 Likelihood 1</p>	<p>Director of Finance (oneSource)</p>

Pension Fund Risk Register

Ref	Risk Title	Cause & Effect	Inherent Score	Mitigations & Action to take forward	Residual Score	Risk Owner
		taken to bridge a gap that doesn't actually exist <ul style="list-style-type: none"> ▪ Potential for a more risk averse Investment Strategy when more risk is required. 				
2	Incorrect / Inappropriate Investment Strategy	Causes: <ul style="list-style-type: none"> ▪ Lack or poor professional investment advice given ▪ Investment advice is not taken ▪ Lack of understanding and awareness (Pension Committee) ▪ Lack of clear risk appetite ▪ Based upon inaccurate actuarial valuation Effects: <ul style="list-style-type: none"> ▪ Pension deficit not reduced ▪ Potential for financial loss ▪ Growth opportunities are not maximised 	Impact 4 Likelihood 3	Mitigations in place: <ul style="list-style-type: none"> ▪ Robust, open tender process in place for appointment of Investment Advisor ▪ Investment Advisor performance is annually reviewed by the Pensions Committee ▪ Close working relationship is encouraged between actuaries and investment advisor in the development of the investment strategy ▪ Investment strategy continually assessed as part of the quarterly monitoring process by the Pensions Committee 	Impact 4 Likelihood 2	Director of Finance (oneSource)

Pension Fund Risk Register

Ref	Risk Title	Cause & Effect	Inherent Score	Mitigations & Action to take forward	Residual Score	Risk Owner
		<ul style="list-style-type: none"> ▪ Could generate inefficiencies and unintended risks if not fully understood. ▪ More investment risk may be taken to bridge a gap that doesn't actually exist ▪ Potential for a more risk averse Investment Strategy when more risk is required. ▪ Potential for Council Tax increases 		<ul style="list-style-type: none"> ▪ Liabilities analysed during inter-valuation period <p>Actions to take forward:</p> <ul style="list-style-type: none"> ▪ Pensions Committee Training / Awareness - working towards full compliance with CIPFA Knowledge and Skills framework ▪ Consider using a further independent advisor for challenge to investment advice 		

Pension Fund Risk Register

Ref	Risk Title	Cause & Effect	Inherent Score	Mitigations & Action to take forward	Residual Score	Risk Owner
3	Failure of investments to perform in-line with growth expectations	<p>Causes:</p> <ul style="list-style-type: none"> Poor Fund Manager selection Underperformance by fund manager Poor investment advice provided to LB of Havering or not taken Negative financial market impacts External factors / increased market volatility (i.e. 2008) Delays in the implementation of the strategy will reduce the effectiveness of the strategy and may impact growth <p>Effects:</p> <ul style="list-style-type: none"> Deficit reduction targets are not met Potential for losses to be incurred Increased employer contributions 	<p>Impact 4</p> <p>Likelihood 3</p>	<p>Mitigations in place:</p> <ul style="list-style-type: none"> Robust, Fund Manager selection process Diverse portfolio to reduce negative effects from market volatility Quarterly monitoring of fund performance and asset class split is presented by the Fund's Investment Advisor at Pension Committee. Fund performance and asset class split is reviewed quarterly by investment advisor/Pensions Committee and officers. Fund Managers attend Pension Committee and officer meetings to present quarterly performance reports <p>Actions to take forward:</p> <ul style="list-style-type: none"> Pensions Committee 	<p>Impact 4</p> <p>Likelihood 2</p>	Director of Finance (oneSource)

Pension Fund Risk Register

Ref	Risk Title	Cause & Effect	Inherent Score	Mitigations & Action to take forward	Residual Score	Risk Owner
				Training/Awareness – working towards full compliance with CIPFA Knowledge and Skills framework		
4	Failure to comply with legislative requirements	<p>Causes:</p> <ul style="list-style-type: none"> ▪ Lack of appropriate skills/knowledge to fulfil requirements ▪ Unaware of legislative changes ▪ Development of key person dependency ▪ Poor/inaccurate interpretation of the regulations ▪ Failure/inability to administer the pension scheme appropriately. <p>Effects:</p> <ul style="list-style-type: none"> ▪ Reputational damage ▪ Potential for financial penalties ▪ Potential for costly legal challenges ▪ Increase in employer contributions, 	<p>Impact 2</p> <p>Likelihood 2</p>	<p>Mitigations in place:</p> <ul style="list-style-type: none"> ▪ Financial requirements are subject to external and internal audit ▪ Experienced personnel in place ▪ Legislative changes are reported to the Pensions Committee where required ▪ Active participation in Legislative Consultations where appropriate ▪ External and in house training provided where required ▪ Member of the CIPFA Pensions Network ▪ Participate in the CIPFA Pensions Network/ Peer forums to share knowledge & awareness ▪ Statutory policy documents 	<p>Impact 2</p> <p>Likelihood 1</p>	<p>Director of Finance (oneSource)</p> <p>And</p> <p>Director of Exchequer & Transactional Services (oneSource)</p>

Pension Fund Risk Register

Ref	Risk Title	Cause & Effect	Inherent Score	Mitigations & Action to take forward	Residual Score	Risk Owner
		delayed due to non-compliance.		reviewed annually to ensure compliance with legislation <ul style="list-style-type: none"> ▪ Access to specialist pension media sources Actions to take forward: None identified at this point.		

Pension Fund Risk Register

Ref	Risk Title	Cause & Effect	Inherent Score	Mitigations & Action to take forward	Residual Score	Risk Owner
5	Inability to manage/govern the Pension Fund and associated services	<p>Causes:</p> <ul style="list-style-type: none"> ▪ Ineffective / lack of succession planning ▪ Loss of corporate knowledge/expertise ▪ Long term sickness absence ▪ Increase in staff turnover ▪ Lack of knowledge sharing protocols ▪ No knowledge base to store experiences/information ▪ Lack of resource (Staffing/financial) ▪ ICT failure ▪ Poor pension fund administration ▪ Poor monitoring of employer financial status ▪ Inappropriate investment accounting <p>Effects:</p> <ul style="list-style-type: none"> ▪ Negative impacts upon service 	<p>Impact 4</p> <p>Likelihood 4</p>	<p>Mitigations in place:</p> <ul style="list-style-type: none"> • Bond or guarantee reviews in place and reviewed every three years as part of valuation process • Procedure manual in place for Pension Administration • Attendance at local forum meetings • Attendance at Annual Pension Managers conference • Members of Local Authority Pensions Web • Participates in the CIPFA Pensions Network/ Peer forums to share knowledge & awareness • Attendance at accounting seminars/training • Guidance from external agencies (some will be at a cost) • Pension Fund uses the service of an external custodian to verify 	<p>Impact 4</p> <p>Likelihood 2</p>	<p>Director of Finance (oneSource)</p> <p>And</p> <p>Director of Exchequer & Transactional Services (oneSource)</p>

Pension Fund Risk Register

Ref	Risk Title	Cause & Effect	Inherent Score	Mitigations & Action to take forward	Residual Score	Risk Owner
		provision <ul style="list-style-type: none"> ▪ Time delays ▪ Potential for breach of legislation ▪ Financial penalties/ other sanctions ▪ Reputational Damage ▪ Increased costs due to "buying in" external expertise ▪ Employer defaults ▪ Qualified opinion on the accounts by external auditor 		asset values and performance <ul style="list-style-type: none"> • Pension Fund accounts subject to external audit. • Continuous pension training • ICT Disaster Recovery in place Actions to take forward: <ul style="list-style-type: none"> • Succession planning required for key personnel • Review / update procedure manuals • Option being assessed for joint administration with Newham to build resilience • Introduce employer covenants checks • Strengthen process for Bond Reviews • Development of workflow/process management • Development of Training Matrix • Establishment of a statutory Local Pension Board to assist the 		

Pension Fund Risk Register

Ref	Risk Title	Cause & Effect	Inherent Score	Mitigations & Action to take forward	Residual Score	Risk Owner
				administering authority in effective and efficient governance of the Havering pension Fund		
6	Failure to effectively "sign -up" new employers / members	<p>Causes:</p> <ul style="list-style-type: none"> ▪ Delays in internal processing of documentation ▪ Poor communications with stakeholders ▪ Lack of understanding by employers with regard to their responsibilities ▪ Lack of signed agreements from Employers <p>Effects:</p> <ul style="list-style-type: none"> ▪ Delays in collection of contribution from the employers/members ▪ Impacts cash flow ▪ Potential for litigation ▪ Employer contribution assessment can become out of date 	<p>Impact 3</p> <p>Likelihood 3</p>	<p>Mitigations in place:</p> <ul style="list-style-type: none"> • Escalation to Heads of Service • Script in place to deliver to new Academy employers, with feedback process in place (minuted) • Database maintained on all contact details for LGPS communications. • Monthly schedules of data submitted to Pensions Administration Team • Electronic file of required documents forwarded to new employers <p>Actions to take forward:</p> <ul style="list-style-type: none"> • Review of internal processes (particularly legal input) 	<p>Impact 3</p> <p>Likelihood 2</p>	Director of Exchequer & Transactional Services (oneSource)

Pension Fund Risk Register

Ref	Risk Title	Cause & Effect	Inherent Score	Mitigations & Action to take forward	Residual Score	Risk Owner
		<ul style="list-style-type: none"> ▪ Potential breach of regulations ▪ Incorrect records of new members ▪ External Audit Opinion on internal controls ▪ Employers liabilities may fall back onto other employers and ultimately local taxpayers. 		<ul style="list-style-type: none"> • Completion of TUPE Process Manual • Completion of Admission Policy manual • Template admission agreement awaiting legal clearance 		
7	Pension Fund Payment Fraud	<p>Causes:</p> <ul style="list-style-type: none"> ▪ Pension overpayments arising as a result of non-notification in change of circumstances ▪ Internal staff fraud ▪ Staff acting outside of their levels of authorisation <p>Effects:</p> <ul style="list-style-type: none"> ▪ Financial loss ▪ Reputational damage of Pension Administration team and Council ▪ Litigation / investigation ▪ Internal disciplinary 	<p>Impact 2 Likelihood 3</p>	<p>Mitigations in place:</p> <ul style="list-style-type: none"> • Participate in the National Fraud Initiative (bi-annually) • Process is in place to investigate return of payment by banks. • All pension calculations are peer checked and signed off by senior officer • Segregation of duties within the Pensions Administration Team • Segregation of duties between Payroll and Pensions Administration Team • 100% address check undertaken 	<p>Impact 2 Likelihood 2</p>	Director of Exchequer & Transactional Services (oneSource)

Pension Fund Risk Register

Ref	Risk Title	Cause & Effect	Inherent Score	Mitigations & Action to take forward	Residual Score	Risk Owner
				for deferred pensions Actions to take forward: <ul style="list-style-type: none"> • Consider implementation of a monthly mortality check • Investigating usage of external agencies (i.e. Western Union) (for overseas payments) 		

PENSIONS COMMITTEE
22 September 2015

Subject Heading:

PENSION FUND ACCOUNTS 2014/15

CMT Lead:

Andrew Blake Herbert

Report Author and contact details:

Debbie Ford
Pension Fund Accountant
01708432569
Debbie.ford@onesource.co.uk

Policy context:

Pension Fund accounts to be noted by the pensions Committee prior to agreement by the Audit committee

Financial summary:

This report comments on the Pension Fund Accounts for the year ended 31 March 2015

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

Havering will be clean and its environment will be cared for	<input type="checkbox"/>
People will be safe, in their homes and in the community	<input type="checkbox"/>
Residents will be proud to live in Havering	<input checked="" type="checkbox"/>

SUMMARY

This report provides Members with an extract of the Council's Statement of Accounts for the year to 31st March 2015 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 2015 and consider if there are any issues that need to be brought to the attention of the Audit Committee.

REPORT DETAIL

1 Background

1.1 The Council's Statement of Accounts for 2014/15 which are currently being audited will be presented to the Audit Committee for agreement on the 24th September 2015. 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. Latest version is shown as attached in **Appendix A**.

1.3 Key items to note from the statement are:

- The Net Assets of the Fund have increased to **£575m** for 2014/15 from £506m in 2013/14, a net increase of £69m.
- The net increase of £69m is comprised of a change in the market value of assets of £63m, investment income of £7m and net additions of cash of £2m and offset by management expenses of (£3m).
- The overall return on the Fund's investments was 13.2% (net of fees). This represented an out performance of 1.7% against the tactical benchmark and an under performance of (12.9%) against the strategic benchmark.
- A copy of the audited Pension Fund Accounts and the auditors' opinion will be included in the 2014/15 Pension Fund Annual Report. The statutory publication date for the 2014/15 Pension Fund Annual Report is 1 December 2015.

1.4 The 2014/15 Pension Fund Annual report is being presented on the Pensions Committee elsewhere on this agenda.

1.5 As part of the audit process of the accounts our auditors will issue a draft ISA260 report, which summarises their findings and sets out key recommendations that will be considered by the auditors when deliberating their opinion, conclusion and issue of audit certificate. Officers will also be given an opportunity to respond to any recommendations raised in the report. At the time of writing this report the draft ISA 260 has yet to be issued by PwC. A verbal update will be provided at the meeting or the ISA260 will be distributed as a late item.

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 2015.

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:

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

Equalities implications and risks:

None arising that directly impacts on residents or staff.

BACKGROUND PAPERS

Working papers held within the Corporate Finance section.
Draft statement of Accounts 2014/15

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PENSION FUND

Pension Fund Account for the year ended 31 March 2015

Restated 2013/14 £000		Note	2014/15 £000
	Contributions and benefits		
45,007	Contributions	7	35,704
2,258	Transfers in from other pension funds	8	1,573
47,265			37,277
(32,387)	Benefits	9	(33,499)
(1,129)	Payments to and on account of leavers	10	(1,506)
(2,985)	Management expenses*	11	(3,334)
(36,501)			(38,339)
10,764	Net (withdrawals) / additions from dealings with members		(1,062)
	Returns on investments		
9,279	Investment income	13	6,651
25,401	Profit and losses on disposal of investments and changes in the market value of investments*	15	63,061
34,680	Net returns on investments		69,712
45,444	Net increase in the net assets available for benefits during the year		68,650
460,575	Net assets of the Fund at start of year		506,019
506,019	Net assets of the Fund at end of year		574,669

Net Asset Statement as at 31 March

2014 £000		Note	2015 £000
501,812	Investment Assets	15	567,992
(1,036)	Investment Liabilities	15	(903)
7,854	Current Assets	21	8,339
(2,611)	Current Liabilities	22	(759)
506,019	Net assets of the Fund available to fund benefits at end of the year		574,669

*2013/14 figures have been restated to reflect the treatment of management and investment expenses as per CIPFA LGPS management costs guidance

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 Description of the Fund

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 Communities and 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 2014/15 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 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 1 April 2014 which will see retirement benefits based on a Career Average Revalued Earnings (CARE) scheme. Members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with Consumer Price Index.

The Fund is financed by contributions from employees, employers and from profits, interest and dividends on its investments. Contributions are made by active members of the Fund in accordance with LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the year ended 31 March 2015. Employer contributions are set based on triennial actuarial funding valuations. The last valuation was 31 March 2013. Employer contribution rates range from 17.3% to 28.7% of pensionable pay.

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.

There are 35 employer organisations within the Havering Pension Fund including the Authority. During 2014/15 four primary schools converted to Academies and a new College became new employers to the Fund.

In addition to the London Borough of Havering, the other employers in the Pension Fund are as follows:

Scheduled Bodies:

Havering College of Further Education

Havering Sixth Form College

NEW: ELUTECH College of Design and Engineering (joined 1 September 2014)

Secondary Schools:

Drapers' Academy (Academy from 1 September 2010)
 Abbs Cross academy and Arts College (Academy from 1 April 2011)
 The Brittons Academy Trust (Academy from 1 April 2011)
 Coopers' Company & Coborn School (Academy from 1 April 11)
 The Albany School (Academy from 1 August 2011)
 The Champion School (Academy from 1 August 2011)
 Hall Mead School (Academy from 1 August 2011)
 Sacred Heart of Mary Girl's School (Academy from 1 August 2011)
 St Edwards Church of England School & Sixth Form (Academy from 1 August 2011)
 Emerson Park Academy (Academy from 1 September 2011)
 Redden Court School (Academy from 1 September 2011)
 The Frances Bardsley Academy for Girls (Academy from 1 July 2012)
 Bower Park Academy (Academy from 1 February 2013)
 The Chafford School (Academy from 1 November 2013)

Primary School:

Upminster Junior Academy (Academy from 1 November 2012)
 Upminster Infant School (Academy from 1 November 2012)
 Langtons Junior Academy (Academy from 1 April 2013)
 Oasis Academy Pinewood (Academy from 1 October 2013)
 NEW – Drapers' Brookside Junior School (Academy from 1 June 2014)
 NEW - Rise Park Infant School (Academy from 1 September 2014)
 NEW – Rise Park Junior School (Academy from 1 September 2014)
 NEW – Pyrgo Priory Primary School (Academy from 1 February 2015)

Admitted Bodies:

Havering Citizens' Advice Bureau
 Mears (ceased 1 Sept 2014)
 Sports and Leisure Management Ltd – Fitness and Health
 Sports and Leisure Management Ltd – Charitable Trust
 Sports and Leisure Management Ltd – Food & Beverage
 KGB Cleaners
 Volker (ceased 31 March 2014)
 Family Mosaic (joined 1 November 2012)
 Sodexo Catering (joined 1 January 2014 – pending legal agreement)
 Breyer Group Repairs (joined 1 March 2014 - pending legal agreement)
 Breyer Group Voids (joined 1 June 2014 – pending legal agreement)

The Havering Pension Fund also has the following bodies:**Designated Bodies:*****Trust Schools***

Corbets Tey Special School

Foundation Schools:

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

Voluntary Aided Schools:

St Alban's Catholic Primary
 St Edwards Church of England Voluntary Aided Primary School

St Joseph's Catholic Primary School
 St Mary's Catholic Primary School
 St Patrick's Catholic Primary School
 St Peter's Catholic Primary School
 St Ursula's Catholic Junior School
 St Ursula's Catholic Infant School
 La Salette Catholic Primary School

Membership

The membership of the Pension Fund is as follows:

31 March 2014		31 March 2015
	Number of employees in scheme	
4,756	Havering	4,897
1,301	Scheduled bodies	1,468
149	Admitted bodies	119
6,206	Total	6,484
	Number of pensioners and dependants	
5,347	Havering	5,432
237	Scheduled bodies	280
57	Admitted bodies	67
5,641	Total	5,779
	Deferred pensioners	
4272	Havering	4,465
557	Scheduled bodies	700
45	Admitted bodies	59
4,874	Total	5,224
16,721		17,487

2 Basis of Preparation

The Financial Statements have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15* which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year.

3 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 8 and 10)

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 is 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) Management Expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Authority discloses its pension fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Costs*.

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.

Oversight and Governance Costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight is charged to the Fund. Associated management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy.

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

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.

Net Assets Statement

(g) 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 the closing bid price if both the bid and offer prices are published; or if single priced, at the closing single price.

(h) 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.

(i) 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.

(j) 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.

(k) 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.

(l) 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.

(m) 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 23)

4. 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 IAS19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 19. This estimate is subject to significant variances based on changes to the underlying assumptions.

5. 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 2015 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: <ul style="list-style-type: none"> • 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 3% • 0.5% increase in the pension increase rate could result in an increase of 7%

6. Events after the Reporting Date

None

7. Contributions Receivable

2013/14 £000		2014/15 £000
	Employers	
	Normal:	
11,941	Havering	12,470
3,672	Scheduled Bodies	5,127
681	Admitted Bodies	576
	Deficit funding:	
21,590	Havering	*10,056
	Augmentation:	
493	Havering	288
77	Scheduled Bodies	248
20	Admitted Bodies	-
38,474	Employer Total	28,765
	Members	
	Normal:	
5,154	Havering	5,401
1,113	Scheduled bodies	1,323
190	Admitted bodies	152
	Additional contributions:	
66	Havering	53
9	Scheduled bodies	9
1	Admitted bodies	1
6,533	Members Total	6,939
45,007		35,704

*The £10.06m deficit funding reflects additional contributions made by the Authority to the Pension Fund. It consists of £5.9m past service contribution as a cash amount and £4.16m planned contributions.

8. Transfers in from Other Pension Funds

2013/14 £000		2014/15 £000
2,258	Individual transfers in from other schemes	1,573

9. Benefits Payable

2013/14 £000		2014/15 £000
	Pensions	
24,975	Havering	26,137
664	Scheduled Bodies	782
431	Admitted Bodies	482
26,070	Pension Total	27,401
	Commutation and Lump Sum Retirements	
5,060	Havering	4,997
472	Scheduled Bodies	471
343	Admitted Bodies	208
5,875	Commutation Total	5,676
	Lump Sum Death Benefits	
380	Havering	410
42	Scheduled Bodies	85
20	Admitted Bodies	(73)
442	Death Benefits Total	422
32,387		33,499

10. Payments To and On Account of Leavers

2013/14 £000		2014/15 £000
2	Refunds to members leaving service	68
1,127	Individual transfers to other schemes	1,438
1,129		1,506

At the year end there are potential liabilities of a further £0.7m in respect of individuals transferring out of the Pension Fund upon whom the Fund is awaiting final decisions.

11. Management Expenses

*2013/14 £000		2014/15 £000
710	Administrative Costs	450
1,976	Investment Management Expenses**	2,618
299	Oversight and Governance Costs	253
-	Local Pension Board	13
2,985		3,334

This analysis of the costs of managing the Havering Pension Fund during the period has been prepared in accordance with CIPFA guidance.

The Investment Management Expenses (see note 12) also includes £797k in respect of transaction costs (2013/14 £719k)

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note15).

**2013/14 figures for Management and Investment Expenses have also been restated to reflect the CIPFA guidance.

12. Investment Management Expenses

**2013/14 £000		2014/15 £000
1,918	Management Fees	2,571
45	Custody Fees	34
13	Performance Monitoring Service	13
1,976		2,618

**2013/14 figures for Management and Investment Expenses have been restated to reflect the CIPFA LGPS Management Costs guidance.

The management fees disclosed above include all investment management fees incurred by the Fund including those charged on pooled fund investments.

13. Investment Income

2013/14 £000		2014/15 £000
2,994	Equity Dividend	754
*3,844	Fixed Interest Securities	*3,918
1,291	Pooled Property Income	1,196
950	Foreign Exchange Gains	404
86	Interest on Cash and Deposits	47
114	Other Income	332
9,279		6,651

* Income includes Index linked Interest of £432k (**2013/14 £464k)

14. Taxes on Income

None

15. Analysis of Investments

2013/14 £000		2014/15 £000
	Investment Assets	
	Equities	
6,707	UK Quoted	3,906
18,013	Overseas Quoted	20,485
24,720		24,391
	Fixed Interest Securities	
12,535	UK Public Sector	13,913
55,547	UK Private (Corporate)	68,003
-	Overseas Public Sector	-
68,082		81,916
	Index-Linked Securities	
41,558	UK Public Sector	49,766
642	UK Private (Corporate)	731
11,444	Overseas Public Sector	13,094
53,644		63,591
	Derivative Contracts	
183	Forward Currency Contracts	21
183		21
	Pooled Investment Vehicles	
	UK Managed Funds	
322,366	UK Quoted	360,314
16	UK Unquoted	19
696	Overseas	318
1,554	Property	550
	UK Unit Trust	
22,888	UK Property	26,341
347,520		387,542
	Cash Instruments	
-	UK	-
-		-
	Cash Deposits	
5,951	Managers	9,044
5,951		9,044
344	Outstanding Sales	-
1,178	Investment Income	1,236
190	Outstanding Dividend and Recoverable Withholding Tax	258
-	Investment Income due	-
1,712		1,494
501,812	Total Investment Assets	567,999

LONDON BOROUGH OF HAVERING STATEMENT OF ACCOUNTS 2014/15

2013/14 £000		2014/15 £000
	Investment Liabilities	
(74)	Derivative Contracts	
	Forward FX Contracts	(550)
(960)	Outstanding Purchases	(355)
(2)	Investment Income Due	(5)
(1,036)	Total Investment Liabilities	(910)
500,776	Total Net Investments	567,089

	Market Value at 31 March 2014	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in Market Value during the year	Cash & Other Movements	Market Value at 31 March 2015
	£000	£000	£000	£000	£000	£000
Equities	24,720	8,136	(11,533)	3,068	-	24,391
Fixed Interest Securities	68,082	30,756	(26,439)	9,517	-	81,916
Index-linked Securities	53,644	185,632	(186,914)	11,229	-	63,591
Pooled Investment Vehicles	347,520	204,674	(204,540)	39,888	-	387,542
Derivatives	109	260,038	(260,038)	(638)	-	(529)
Cash Deposits (fund managers)	5,951	-	-	(1)	3,094	9,044
	500,026	689,236	(689,464)	63,063	3,094	565,955
Other Investment Balances	750	-	-	(2)	386	1,134
	500,776	689,236	(689,464)	63,061	3,480	567,089

	Market Value at 31 March 2013	Purchases during the year and derivative payments	*Sales during the year and derivative receipts	*Change in Market Value during the year	Cash & Other Movements	Market Value at 31 March 2014
	£000	£000	£000	£000	£000	£000
Equities	107,401	29,913	(122,847)	10,253	-	24,720
Fixed Interest Securities	65,506	58,535	(54,397)	(1,562)	-	68,082
Index-linked Securities	53,541	160,203	(157,261)	(2,839)	-	53,644
Pooled Investment Vehicles	222,996	169,946	(5,979)	19,057	(58,500)	347,520
Derivatives	(387)	238,342	(238,342)	496	-	109
Cash instruments	1,055	10,052	(11,107)	-	-	-
Cash Deposits (fund managers)	5,719	-	-	-	232	5,951
	455,831	666,991	(589,933)	25,405	(58,268)	500,026
Other Investment Balances	1,502	-	-	(4)	(748)	750
	457,333	666,991	(589,933)	25,401	(59,016)	500,776

* Sales and Change in Market Values during the year ending 31 March 2014 has been restated to reflect treatment of management fees as per the CIPFA Guidance.

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 £797k, including transition costs (2013/14 £719k restated). 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.

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 2015 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	344,552	GBP	1,933	3	-
Up to one month	JPY	454,717	GBP	2,564	-	(9)
Up to one month	JPY	555,241	GBP	3,144	-	(24)
Up to one month	GBP	8,471	JPY	1,518,696	-	(62)
Up to one month	GBP	1,581	JPY	287,835	-	(37)
Up to two months	GBP	14,816	USD	22,578	-	(398)
Up to two months	GBP	327	USD	504	-	(12)
Up to three months	GBP	1,763	EUR	2,441	-	(5)
Up to three months	GBP	1,038	EUR	1,408	18	-
Up to three months	GBP	640	USD	952	-	(1)
Up to three months	GBP	485	USD	722	-	(2)
Gross open forward currency contracts at 31 March 2015					21	(550)
Net forward currency contracts at 31 March 2015					-	(529)
Prior year comparative						
Gross open forward currency contracts at 31 March 2014					183	(74)
Net forward currency contracts at 31 March 2014					109	-

The investments analysed by fund managers and the market value of assets under their management as at 31 March 2015 were as follows:

Value 31 March 2014		Manager	Mandate	Value 31 March 2015	
£000	%			£000	%
99,454	19.86	Royal London	Investment Grade Bonds	119,855	21.13
23,166	4.63	UBS	Property	26,671	4.70
64,853	12.95	Ruffer	Absolute Return	72,851	12.85
46,634	9.31	State Street Global Assets	Passive UK/Global Equities	55,502	9.79
11,547	2.31	State Street Global Assets	Sterling Liquidity Fund	11,682	2.06
85,594	17.09	Baillie Gifford	Pooled Global Equities	101,846	17.96
97,978	19.57	Barings DAAF	Multi Asset	17	-
71,029	14.18	Baillie Gifford DGF	Multi Asset	76,732	13.53
-	-	GMO	Multi Asset	101,882	17.97
521	0.10	Other		51	0.01
500,776	100.00	Total Fund		567,089	100.00

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

Market Value 31 March 2014	% of total fund	Security	Market Value 31 March 2015	% of total fund
£000			£000	
97,978	19.36	Barings Dynamic Asset Allocation Fund	-	-
-	-	GMO	101,882	17.73
85,594	16.92	Baillie Gifford Global Alpha Pension Fund	101,846	17.72
71,029	14.04	Baillie Gifford Diversified Growth Fund	76,732	13.35
46,634	9.22	SSGA MPF All World Equity Index	55,502	9.66

16. 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 Fund's 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.

17. 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 2014				31 March 2015		
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			
24,720	-	-	Equities	24,391	-	-
68,082	-	-	Fixed Interest Securities	81,916	-	-
53,644	-	-	Index linked securities	63,591	-	-
183	-	-	Derivative contracts	14	-	-
324,632	-	-	Pooled investment Vehicles	361,201	-	-
22,888	-	-	Property	26,341	-	-
-	5,951	-	Cash	-	9,044	-
-	9,566	-	Debtors	-	9,525	-
494,149	15,517	-	Financial Assets Total	557,454	18,569	-
			Financial Liabilities			
(74)	-	-	Derivative contracts	(543)	-	-
-	-	(3,573)	Creditors	-	-	(811)
(74)	-	(3,573)	Financial Liabilities Total	(543)	-	(811)
494,075	15,517	(3,573)	Grand total	556,911	18,569	(811)

(b) Net gains and losses on financial instruments

2013/14 £000		2014/15 £000
	Financial assets	
24,427	Fair value through fund account	63,061
-	Loans and receivables	-
-	Financial liabilities measured at amortised cost	-
	Financial liabilities	
-	Fair value through fund account	-
-	Loans and receivables	-
-	Financial liabilities measured at amortised cost	-
24,427	Total	63,061

(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

2013/14			2014/15	
Carrying Value	Fair Value		Carrying Value	Fair Value
£000	£000		£000	£000
494,149	494,149	Financial assets		
15,517	15,517	Fair value through fund account	557,454	557,472
		Loans and receivables	18,569	18,551
509,666	509,666	Total financial assets	576,023	576,023
		Financial liabilities		
(74)	(74)	Fair value through fund account	(543)	(543)
(3,573)	(3,573)	Financial liabilities at amortised cost	(811)	(811)
(3,647)	(3,647)	Total financial liabilities	(1,354)	(1,354)

The Authority 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.

Values at 31 March 2015	Quoted Market price	Using observable inputs	With significant unobservable inputs	Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
Financial Assets				
Financial assets at fair value through profit and loss	531,112	19	26,341	557,472
Loans and receivables	18,551	-	-	18,551
Total Financial Assets	549,663	19	26,341	576,023
Financial Liabilities				
Financial liabilities at fair value through profit and loss	(543)	-	-	(543)
Financial liabilities at amortised cost	(811)	-	-	(811)
Total Financial Liabilities	(1,354)	-	-	(1,354)
Net Financial Assets	548,309	19	26,341	574,669

Values at 31 March 2014	Quoted Market price	Using observable inputs	With significant unobservable inputs	Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
Financial Assets				
Financial assets at fair value through profit and loss	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	483,115	16	22,888	506,019

18. 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 Authority manages these investment risks as part of its overall pension fund risk management programme.

(a) Market Risk

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

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

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

Other Price Risk

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

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

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

Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movements during the financial year, in consultation with the Fund's performance monitoring service, it has been determined that the following movements in market price risk are reasonably possible for the 2014/15 reporting period:

Asset Type	31 March 2015 Potential market movements (+/-)	31 March 2014 Potential market movements (+/-)
UK Equities	-	8.91%
Global Pooled inc. UK	9.04%	11.31%
Fixed Interest Bonds	7.74%	6.74%
Index Linked Bonds	11.26%	10.49%
Property	4.86%	4.17%
Cash	0.01%	0.02%

The potential price changes disclosed above are determined based on the observed historical volatility of asset class returns. 'Riskier' assets such as equities will display greater potential volatility than bonds as an example, so the overall outcome will depend on the Funds asset allocations. The potential volatilities are consistent with a one-standard deviation movement in the value of assets over the last three years. This can be applied to the period end asset mix.

If the market price of the Fund's 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 2015 £000	Change %	Value on Increase £000	Value on Decrease £000
UK Equities	-	-	-	-
Global Pooled inc.UK	385,592	9.04	420,450	350,734
Fixed Interest Bonds	81,916	7.74	88,256	75,576
Index linked Bonds	63,591	11.26	70,751	56,431
Property	26,341	4.86	27,621	25,061
Cash	9,044	0.01	9,045	9,043
Total	566,484		616,123	516,845

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

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 2015 and 31 March 2014 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 2015 £000	As at 31 March 2014 £000
Bond Securities	145,507	121,726
Cash and Cash Equivalents	9,044	5,951
Cash Balances	-	-
Total	154,551	127,677

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 2015 £000	Change in year in the net assets available to pay benefits	
		+100BPS £000	-100BPS £000
Bond Securities	145,507	1,465	(1,465)
Cash and Cash Equivalents	9,044	90	(90)
Total Change in Asset Value	154,551	1,555	(1,555)

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. pounds sterling.

The table below summarises the Fund's currency exposure by asset type

Currency Exposure by Asset Type	Value as at 31 March 2015 £000	Value as at 31 March 2014 £000
Overseas Equities	20,485	18,013
Overseas Pooled	2,249	2,971
Overseas Index Linked Bonds	13,094	11,444
Overseas Cash	140	113
Total Overseas Assets	35,968	32,541

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 7.37% over a rolling 36 month period.

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

A 7.37% strengthening and weakening of the pound against the various currencies in which the Fund holds investments would increase or decrease the net assets available to pay benefits as follows:

Currency Exposure by Asset Type	Value as at 31 March 2015 £000	Change to net assets available to pay benefits	
		+7.37% £000	-7.37% £000
Overseas Equities	20,485	21,995	18,975
Overseas Pooled	2,249	2,415	2,083
Overseas Index Linked Bonds	13,094	14,059	12,129
Overseas Cash	140	150	130
Total	35,968	38,619	33,317

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

(b) Credit Risk

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

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

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

(c) Liquidity Risk

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

19. Funding Arrangements

London Borough of Havering (“the Fund”)

Actuarial Statement for 2014/15

This statement has been prepared in accordance with Regulation 57(1) (d) of the Local Government Pension Scheme Regulations 2013, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2014/15. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The Funding policy is set out in the Administering Authority’s Funding Strategy Statement (FSS). 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’/dependants’ 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 to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (N.B. this will also minimise the costs to be borne by council tax payers);
- to reflect the different characteristics of different employers 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 20 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 2013 valuation report published 31 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:

Assumptions	31 March 2013	
	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 assumption is based on the Fund's VitaCurves with improvements in line with the 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 summarised below:

	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 the London Borough of Havering, Adminstrating Authority to the Fund.

Experience over the period since April 2013

Experience has been mixed over the two years to 31 March 2015 (excluding the effect of any membership movements). Real bond yields have fallen dramatically and the effect of this has been offset by the effect of strong asset returns, meaning that funding levels are likely to have increased marginally over this period.

The next actuarial 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 Authority, 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 17.3% to 28.7% of pensionable pay.

20. Actuarial Present Value of Promised Retirements

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS19 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 19).

Balance Sheet

Year Ended	31 March 2015	31 March 2014
	£m	£m
Present Value of Promised Retirement Benefits	1,019	898

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. It is estimated that this liability at 31 March 2015 comprises £460m in respect of employee members, £164m in respect of deferred pensioners and £395m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, the actuary is satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. No allowance has been made for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. It is estimated that the impact of the change of assumptions to 31 March 2015 is to increase the actuarial present value by £92m.

Financial assumptions

The actuary's recommended financial assumptions are summarised below:

Year Ended	31 March 2015	31 March 2014
	% p.a.	% p.a.
Inflation/Pensions Increase Rate	2.10	2.60
Salary Increase Rate	3.00	3.40
Discount Rate	3.10	4.10

Longevity assumption

As discussed in Note 19, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the 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 summarised below:

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

*Future pensioners are assumed to be currently aged 45

Please note the longevity assumptions are identical to those used for the previous IAS26 disclosure for the Fund.

Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

Professional notes

This paper accompanies my covering report titled 'Actuarial Valuation as at 31 March 2015 for IAS19 purposes' dated 24 April 2015. The covering report identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

21. Current Assets

2013/14 £000		2014/15 £000
	Debtors:	
8	Pension Grants	8
-	Other Local Authorities	7
184	Contributions due from employers	345
71	Contributions due from members	71
-	Pension Fund Bank Account Balances	2,608
-	Debtors Refund	2
7,591	Cash deposit with LB Havering	5,298
7,854	Current Assets	8,339

2013/14 £000	Analysis of Debtors	2014/15 £000
8	NHS Bodies	8
-	Other local authorities	7
184	Public corporation and trading funds	345
71	Other entities and individuals	73
263	Total Debtors	433

22. Current Liabilities

2013/14 £000		2014/15 £000
	Creditors:	
(439)	Unpaid Benefits	(188)
(241)	Accrued Expenses	(263)
(1,931)	Pension Fund Bank Account Balance	-
-	Income Tax Recoveries	(305)
-	Holding Accounts	(3)
(2,611)		(759)

2013/14 £000	Analysis of Creditors	2014/15 £000
(680)	Other entities and individuals	(759)
(680)	Total	(759)

23. Additional Voluntary Contributions

Market Value 2013/14	AVC Provider	Market Value 2014/15
£000		£000
717	Prudential	803
145	Standard Life	160

Some employees made additional voluntary contributions (AVC's) of £62,496 (2013/14 £62,167) excluded from these statements. These are deducted from the employees' salaries and forwarded to the stakeholder pension schemes provided by the Prudential and Standard Life. The amounts forwarded during 2014/15 were £47,380 (2013/14 £48,592) to the Prudential and £15,116 (2013/14 £13,575) to Standard Life.

24. Related Party Transactions

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

The Havering Pension Fund is administered by Havering Council and consequently there is a strong relationship between the Authority and the Pension Fund. In 2014/15, £0.411m was paid to the Authority for the cost of administering the Fund (£0.693m in 2013/14).

The Authority is also the largest employer in the Fund and in 2014/15 contributed £22.526m (£33.500m in 2013/14) 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 2015 these included the Group Director of Communities and Resources, Head of Finance and Procurement, Corporate Finance Manager and the Pension Fund Accountant. All of these managers are members of the Pension Fund. In 2014/15 the Pension Fund contributed £0.143m for the cost of the financial management of the Fund (£0.143m 2013/14).

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 2015 cash holdings totalled £7.6m (2013/14 £5.7m), earning interest over the year of £47k (2013/14 £41k).

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 Communities and 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.

25. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) as at 31 March 2015 totalled £186k (2013/14 £186k). This relates to an outstanding commitment due on an unquoted private equity fund.

26. 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 £4.2m and are drawn down in favour of the Pension Fund. 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.

27. Impairment Losses

There were no material impairment losses for bad and doubtful debts as at 31 March 2015.

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