



Havering

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

PENSIONS COMMITTEE AGENDA

7.00 pm	Tuesday 14 March 2017	Town Hall, Main Road, Romford
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Members 7: Quorum 3

COUNCILLORS:

Conservative

(3)

John Crowder
(Chairman)
Melvin Wallace
Jason Frost

Residents'

(2)

Stephanie Nunn
Nic Dodin

East Havering Residents'

(1)

Clarence Barrett

UKIP

(1)

David Johnson
(Vice-Chair)

Trade Union Observers

(No Voting Rights)
(2)

John Giles, (Unison)
Andy Hampshire, GMB

Admitted/Scheduled Bodies Representative

(Voting Rights)
(1)

Vacant

**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 INTERESTS

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

Members may still disclose any 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 13 December 2016 and of the Special meeting held on 23 January 2017 and authorise the Chairman to sign them.

5 PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED DECEMBER 2016 (Pages 7 - 22)

6 2016/17 FUND EXTERNAL AUDIT PLAN; HAVERING PENSION FUND (Pages 23 - 42)

7 LOCAL PENSIONS BOARD - ANNUAL REPORT 2015/16 (Pages 43 - 56)

To note the Annual Report of the Local Pensions Board.

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 (Pages 57 - 62)

To approve as correct the exempt minutes of the meeting held on 13 December 2016 and of the Special meeting held on 23 January 2017 and authorise the Chairman to sign them.

11 HYMANS ROBERTSON REVIEW OF FUND PERFORMANCE FOR THE QUARTER ENDING DECEMBER 2016 (Pages 63 - 84)

To consider the report submitted by Hymans Robertson.

12 ROYAL LONDON (BONDS) - PERFORMANCE REPORT (Pages 85 - 108)

To receive a presentation from Royal London Asset Management.

13 UBS (PROPERTY) - PERFORMANCE REPORT (Pages 109 - 158)

To receive a presentation from UBS.

Andrew Beesley
Head of Democratic Services

MINUTES OF A MEETING OF THE PENSIONS COMMITTEE

**Town Hall, Main Road, Romford
13 December 2016 (7.00 - 9.40 pm)**

Present:

COUNCILLORS

Conservative Group John Crowder (Chairman) and Melvin Wallace

Residents' Group Stephanie Nunn and Nic Dodin

**East Havering
Residents' Group** Clarence Barrett

UKIP Group David Johnson (Vice-Chair)

Trade Union Observers: John Giles (UNISON)

Apologies were received for the absence of Councillor Jason Frost, Andy Hampshire (GMB) and Heather Foster-Byron (Admitted/Scheduled Bodies).

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

29 MINUTES OF THE MEETING

The minutes of the meeting of the Committee held on 22 November 2016 were agreed as a correct record and signed by the Chairman.

30 PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED SEPTEMBER 2016

Officers advised the Committee that the net return on the Fund's investments for the quarter to 30 September 2016 was 6.7%. This represented an outperformance of 2.5% against the tactical benchmark and represented an outperformance of 1.8% against the strategic benchmark.

The overall net return for the year to 30 September 2016 was 16.2%. This represented an outperformance of 2.6% against the tactical combined benchmark and an under performance of -7.9% against the annual strategic benchmark.

At the close of business on 30 September 2016 the total combined value of the fund was £640.81m this represented an increase of £38.48m from the

position at the close of business on 30 June 2016. Officers advised that as at the end of November 2016 the value of the fund stood at £634.5m.

The Committee **noted** the report.

31 **MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE (MIFID) II**

The Committee were advised that the consultation period for responses to the MiFID II proposals closed on 4 January 2017. This could have a significant impact on both the Pension Fund and the Council's treasury Management function. There were several areas of concern and both the London CIV and London Government Association were submitting responses. It was important that the Council also respond and the Committee **AGREED** to delegate to the Section 151 Officer authority to respond on the Pension Fund's behalf.

32 **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.

33 **HYMANS ROBERTSON REVIEW OF FUND PERFORMANCE FOR THE QUARTER ENDING SEPTEMBER 2016**

The committee **noted** the presentation from Hymans Robertson.

34 **STATE STREET GLOBAL ADVISORS (SSGA) - FUND PERFORMANCE TO 31 OCTOBER 2016**

The Committee **thanked** Jason Allan, the UK Head of Pension Funds for his presentation on the performance of the MPF All World Equity Index sub-Fund, the MPF Fundamental Index Global Equity sub-Fund and the MPF Sterling Liquidity Index sub-Fund. In response to questions Jason explained the methods used to ensure the tracking errors were kept to a minimum.

35 **PRESENTATION BY GMO ON PERFORMANCE OF THEIR GLOBAL REAL RETURN (UCITS) FUND**

The Committee **thanked** both Tommy Garvey, a member of GMO's Asset Allocation team and Helen Roughsedge, Client Relationship Manager for their presentation on the performance of GMO's Global Real Return (UCITS) Fund.

36 **LONDON CIV PRESENTATION**

Jill Davys and Julian Pendock presented on behalf of the London CIV discussing performance of the three funds they manage on behalf of the Pension Fund and proposals for the further development of the London CIV.

The Committee **thanked** them for the presentation.

37 **INVESTMENT STRATEGY**

The Committee **deferred** consideration of this item for decision at a special meeting to be called in January 2017.

Chairman

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**MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Committee Room 3A - Town Hall
23 January 2017 (11.30 – 12.15)**

Present:

COUNCILLORS

Conservative Group	John Crowder (Chairman)
Residents' Group	Stephanie Nunn and John Mylod (In place of Nic Dodin)
East Havering Residents' Group	Clarence Barrett
UKIP Group	David Johnson (Vice-Chair)

Trade Union Observers: John Giles (UNISON)

Apologies were received for the absence of Councillors Jason Frost and Melvin Wallace, Heather Foster-Byron (Scheduled/Admitted Bodies) and John Hampshire (Trade Union Observer).

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

38 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.

39 INVESTMENT STRATEGY

Following the training delivered by Hyman Robertson prior to the meeting members discussed the various options to revisit the mandates in the Pension Fund's portfolio.

Details of the decisions are contained in the exempt minutes.

Chairman

PENSIONS COMMITTEE

14 MARCH 2017

Subject Heading:

**PENSION FUND PERFORMANCE
MONITORING FOR THE QUARTER
ENDED DECEMBER 2016**

SMT Lead:

Debbie Middleton

Report Author and contact details:

Debbie Ford
Pension Fund Accountant
01708432569

Policy context:

Debbie.ford@onesource.co.uk
Pension Fund Managers' performances are regularly monitored in order to ensure that the investment objectives are being met.

Financial summary:

This report comments upon the performance of the Fund for the period ended 31 December 2016

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 31 December 2016. The performance information is taken from the Quarterly Performance Report supplied by each Investment Manager, the WM Company Quarterly Performance Review Report and Hymans Monitoring Report.

The net return on the Fund's investments for the **quarter** to 31 December 2016 was **1.3%**. The performance matches the tactical benchmark and represents an outperformance of **7.0%** against the strategic benchmark.

The overall net return of the Fund's investments for the **year** to 31 December 2016 was **14.5%**. This represents an outperformance of **1.7%** against the tactical combined benchmark and under performance of **-5.7%**

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.

We measure the individual managers' annual return for the new tactical combined benchmark and these results are shown later in the report.

RECOMMENDATIONS

That the Committee:

- 1) Notes the summary of the performance of the Pension Fund within this report.
- 2) Considers Hymans performance monitoring report and presentation (Appendix A).
- 3) Receive a presentation from the Fund's Bonds Manager (Royal London) and the Fund's Property Manager (UBS).
- 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 Investment Strategy was fully reviewed during 2012/13 and this report reflects those structure decisions and any subsequent changes. 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 Index Linked 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. The current shortfall is driven by the historically low level of real interest rates which drive up the value of index linked 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 The objective of the Fund's investment strategy is to deliver a stable long-term investment return in excess of the expected growth in the Fund's liabilities. Whilst mechanisms such as hedging could have served to protect the fund against falling interest rates in the short-term, such strategies are not commonly employed within the LGPS. The Fund has retained investments with Royal London which have offered some resilience to the fluctuations in interest rates, but given the long term nature of the fund, the Fund's investment advisers believe that the 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, lower realised inflation over recent years means that the actual benefit cash flows expected to be paid from the fund will be lower than previously expected although the fund's liabilities remain subject to changes in future inflation expectations.
- 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 The following table reflects the asset allocation split agreed under the Statement of investment Principles (SIP) November 2015. The Committee is also in the process of rebalancing the current Investment Strategy target asset allocations and these targets were revised and agreed at the Special Pensions Committee on the 23 January 2017. The revised asset allocation targets are shown for comparisons against the SIP's target allocation in the following table:

Asset Class	Target Asset Allocation (SIP Nov 15)	Target Asset Allocation (ISS Jan 17)	Investment Manager/ product	Segregated/ pooled	Active/ Passive	Benchmark and Target
UK/Global Equity	12.5%	15.0%	LCIV Baillie Gifford (Global Alpha Fund)	Pooled	Active	MSCI All Countries Index plus 2.5%
	6.25%	7.5%	State Street Global Asset	Pooled	Passive	FTSE All World Equity Index
	6.25%	7.5%	State Street Global Asset	Pooled	Passive	FTSE RAFI All World 3000 Index
Multi Asset Strategy	15%	12.5%	LCIV Baillie Gifford	Pooled	Active	Capital growth at

Asset Class	Target Asset Allocation (SIP Nov 15)	Target Asset Allocation (ISS Jan 17)	Investment Manager/ product	Segregated/ pooled	Active/ Passive	Benchmark and Target
			(Diversified Growth Fund)			lower risk than equity markets
	20%	15.0%	GMO Global Real return (UCITS)	Pooled	Active	OECD CPI g7 plus 3 - 5%
Absolute Return	15%	15%	LCIV Ruffer	Pooled	Active	Absolute Return
Property	5%	6%	UBS	Pooled	Active	IPD All balanced (property) Fund's median +
Gilt/Investment Bonds	17%	19%	Royal London	Segregated	Active	<ul style="list-style-type: none"> • 50% iBoxx £ non- Gilt over 10 years • 16.7% FTSE Actuaries UK gilt over 15 years • 33.3% FTSE Actuaries Index- linked over 5 years. Plus 1.25%*
Infrastructure	3%	2.5%	State Street Global Assets –Sterling liquidity Fund			Cash is invested pending identification of an infrastructure project.

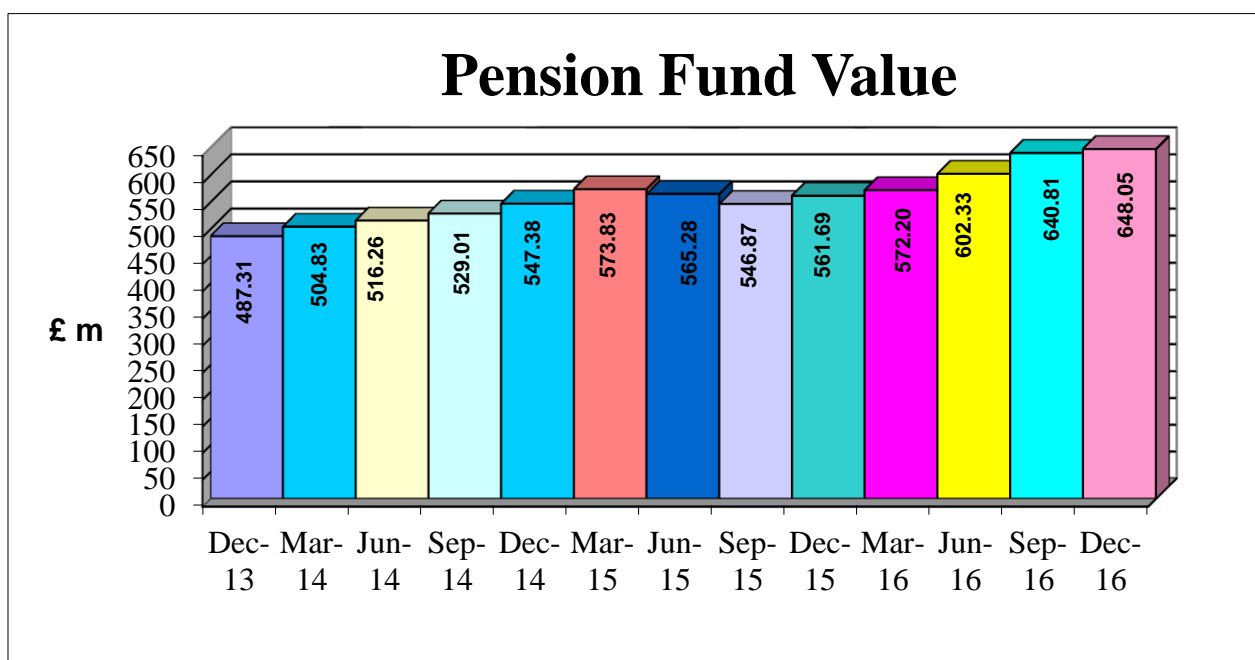
*0.75% prior to 1 November 2015

1.6 UBS, SSgA, GMO, Ruffer and Baillie Gifford manage the assets on a pooled basis. Royal London manages the assets on a segregated basis. Both the Baillie Gifford mandates and the Ruffer mandate are now operated via the London Collective Investment Vehicle (CIV). Performance is monitored by reference to the benchmark and out performance target as shown in the above table. Each manager's individual performance is shown later in this report with a summary of any key information relevant to their performance.

- 1.7 Since 2006, to ensure consistency with reports received from our Performance Measurers, Investments Advisors and Fund Managers, the 'relative returns' (under/over performance) calculations has been changed from the previously used arithmetical method to the industry standard geometric method (please note that this will sometimes produce figures that arithmetically do not add up).
- 1.8 Existing Managers are invited to present at the Pensions Committee Meeting every six months. On alternate dates, they meet with officers for a formal monitoring meeting. The exception to this procedure are the pooled Managers (SSgA, UBS, Baillie Gifford, Ruffer and GMO) 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.
- 1.9 Hyman's performance monitoring report is attached at **Appendix A**.

2. Fund Size

- 2.1 Based on information supplied by our performance measurers the total combined fund value at the close of business on 31 December 2016 was **£648.05m**. 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 £640.81m at the 30 September 2016; an **increase** of **£7.24m**. The movement in the fund value is attributable to an increase in assets of £7.54m and a reduction in cash of (£0.30m). The internally managed cash level stands at **£13.36m** of which an analysis follows in this report.



Source: WM Company (Performance Measurers)

2.2 An analysis of the internally managed cash balance of **£13.36m** follows:

<u>CASH ANALYSIS</u>	<u>2014/15</u> <u>31 Mar 15</u>	<u>2015/16</u> <u>31 Mar 16</u> <u>Updated</u>	<u>2016/17</u> <u>31 Dec 16</u>
	£000's	£000's	£000's
Balance B/F	-5,661	-7,599	-12,924
Benefits Paid	33,568	35,048	27,189
Management costs	1,600	1,754	949
Net Transfer Values	-135	518	2,565
Employee/Employer Contributions	-35,306	-42,884	-31,662
Cash from/to Managers/Other Adj.	-1,618	306	586
Internal Interest	-47	-67	-69
Movement in Year	-1,938	-5,325	-442
Balance C/F	-7,599	-12,924	-13,366

2.3 Members agreed the updated cash management policy at its meeting on the 15 December 2015. The policy sets out that the target cash level should be £5m but not fall below the de-minimus amount of £3m or exceed £6m. This policy includes drawing down income from the bond and property manager when required.

2.4 The cash management policy also incorporates a threshold for the maximum amount of cash that the fund should hold and introduced a discretion that allows the Chief Executive (now the Statutory S151 officer) to exceed the threshold to meet unforeseeable volatile unpredictable payments. The excess above the threshold of £6m is being considered as part of the investment strategy review.

3. Performance Figures against Benchmarks

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

	Quarter to 31.12.16	12 Months to 31.12.16	3 Years to 31.12.16	5 years to 31.12.16
Fund	1.3%	14.5%	8.5%	10.3%
Benchmark	1.3%	12.6%	8.1%	9.0%
*Difference in return	0.0%	1.7%	0.4%	1.2%

Source: WM Company

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

- 3.2 The overall net performance of the Fund against the **Strategic Benchmark** (i.e. the strategy adopted of Gilts + 1.8% Net of fees) is shown below:

	Quarter to 31.12.16	12 Months to 31.12.16	3 Years to 31.12.16	5 years to 31.12.16
Fund	1.3%	14.5%	8.5%	10.3%
Benchmark	-5.3%	21.5%	17.3%	10.7%
*Difference in return	7.0%	-5.7%	-7.5%	-0.3%

Source: WM Company

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

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

QUARTERLY PERFORMANCE (AS AT 31 DECEMBER 2017)

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark	Target	Performance vs Target
	%	%	%	%	%
Royal London	-3.67	-4.32	0.65	-4.01	-0.34
UBS	2.31	2.26	0.05	n/a	n/a
GMO	-1.23	1.30	-2.50	n/a	n/a
SSgA Global Equity	6.63	6.65	-0.02	n/a	n/a
SSgA Fundamental Index	10.20	10.21	-0.01	n/a	n/a
SSgA Sterling Liquidity Fund	0.09	0.03	0.06	n/a	n/a
LCIV/Ruffer*	2.01	0.00	2.01	n/a	n/a
LCIV/Baillie Gifford (DGF)*	2.01	0.00	2.01	n/a	n/a
LCIV/Baillie Gifford (Global Alpha Fund)	3.92	6.43	-2.51	n/a	n/a

Source: WM Company, Fund Managers and Hymans

- Totals may not sum due to geometric basis of calculation and rounding.
- * Absolute Return and not measured against a benchmark

ANNUAL PERFORMANCE (LAST 12 MONTHS)

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark	Target	Performance vs Target
	%	%	%	%	%
Royal London	19.36	20.23	-0.87	21.48	-2.12
UBS	3.14	2.77	0.37	n/a	n/a
GMO	2.22	6.40	-4.00	n/a	n/a
SSgA Fundamental Index	34.70	34.83	-0.13	n/a	n/a
SSgA Sterling Liquidity Fund	0.50	0.26	0.24	n/a	n/a
SSgA Global Equity	29.40	29.48	-0.08	n/a	n/a
LCIV/Ruffer*	n/a	n/a	n/a	n/a	n/a
LCIV/Baillie Gifford (DGF)*	n/a	n/a	n/a	n/a	n/a
LCIV/Baillie Gifford (Global Alpha Fund)	n/a	n/a	n/a	n/a	n/a

Source: WM Company, Fund Managers and Hymans

- Totals may not sum due to geometric basis of calculation and rounding.
- Ruffer not invested for entire period (inception LCIV 21/06/16)
- Baillie Gifford (DGF) not invested for entire period (inception LCIV 15/02/16)
- Baillie Gifford Global Alpha not invested for entire period (inception LCIV 11/04/16)
- * Absolute Return and not measured against a benchmark

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 31 December 2016 follows.
- b) The value of the fund as at 31 December 16 decreased by £5.11m on the previous quarter.
- c) Royal London achieved a net return of -3.67% over the quarter but outperformed the benchmark for the quarter by 0.65%. The mandate is behind the benchmark over the year by -0.87% and outperforming the benchmark over 5 years by 0.77%.

4.2. Property (UBS)

- a) In accordance with agreed procedures officers will only meet with representatives from UBS once in the year with the other meeting to be held with members.
- b) Officers last met with representatives from UBS on the 24 August 2016 at which a review of their performance as at 30 June 16 was discussed. UBS are due to make a presentation at this Committee therefore a brief overview of their performance as at 31 December 2016 follows.
- c) The value of the fund as at 31 December 2016 reduced by -£0.42m since the September quarter.
- d) UBS delivered a net return of 2.31% over the quarter, outperforming the benchmark by 0.05%. The mandate is ahead of the benchmark over the year by 0.37% and 2.08% over 5 years.

4.3. 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.
- b) Officers last met with representatives from GMO on the 3 November 2016, at which a review of their performance as at 30 September 16 was discussed. GMO last met with the members of the Pension Committee on the 13 December 2016 at which they covered the period ending up to 31 October 2016, this was in addition to their attendance at the Pension Committee on the 16 June 2016 at which they covered the period ending up to 31 March 2016.
- c) The value of the fund increased by £1.22m over the last quarter.
- d) GMO have underperformed their benchmark over the 3 month, 12 month and since inception and their performance summary can be seen in the table below:

	3 Months	12 Months	Since inception (13 Jan 2015)
	%	%	%
Fund	-1.2	2.20	-1.10
Target CPI +5%	1.3	6.40	6.10
Relative to Target	-2.5	-4.00	-6.80

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

- e) The GMO investment is in a dynamic multi-asset fund, the GMO Global Real Returns UCITS Fund (GRRUF) and targets a return of CPI+5% (net of fees) over a full 7 year cycle. GMO are two years into the 7 year cycle and believes that if current market conditions continue then GMO feel that CPI +2-3% is more achievable.
- f) Allocations to Alternative Strategies and cash have detracted from performance with allocations to Fixed Income and Equities adding positively to performance.
- g) Hymans has improved the ratings of this manager to 'Retain' from the previous rating of 'On Watch' following positive meetings with their investment team.
- h) Please see Hymans report in Appendix A for further commentary on the Fund Manager's performance.

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. Officers last met with representatives from SSgA on the 11 May 2016 at which a review of their performance as at 31 March 16 was discussed. SSgA last met with the members of the Pension Committee on the 13 December 2016 at which they covered the period ending up to 30 September 2016.
- b) The SSgA mandate is now split into three components, Sterling Liquidity sub fund, SSgA All World Equity Index sub fund, and the Fundamental Index Global Equity sub fund.
- c) The value of the three mandates within the fund has increased by £7.18m in total since the last quarter.
- d) SSGA has performed in line with the benchmark over the latest quarter, as anticipated from an index-tracking mandate.

4.5. Multi Asset Manager – London CIV (Ruffer)

- a) This mandate transferred to the London CIV on 21 June 2016.
- b) Since the transfer the London CIV will oversee the monitoring and review of the performance of this mandate. However Ruffer has stated that they are happy to continue with the existing monitoring

arrangements and meet with officers and the Committee to report on its own performance.

- c) The investment objective of the sub-fund is to achieve low volatility and positive returns in all market conditions from an actively managed portfolio of equities or equity related securities (including convertibles), corporate and government bonds and currencies. Capital invested in the sub-fund is at risk and there is no guarantee that a positive return will be delivered over any one or a number of twelve-month periods.
- d) 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.
- e) Ruffer last met with the members of the Pension Committee on the 20 September 2016 at which they covered the period ending up to 30 June 2016. Officers met with representatives from Ruffer on the 31 January 2017 at which a review of their performance as at 31 December 16 was discussed as follows:
- f) The value of the fund as at 31 December 16 increased by £1.58m on the previous quarter.
- g) Since the mandates transfer to the London CIV Ruffer delivered a return of 2.01% over the quarter and 11.5% since inception with the London CIV. The mandate is an Absolute Return Fund (measures the gain/loss as percentage of invested capital) and therefore is not measured against a benchmark. Capital preservation is a fundamental philosophy of the Fund.
- h) Ruffer's current portfolio's asset allocation is split as 38% in equities, 41% in bonds with the remaining 21% in cash, gold and illiquid strategies (protective options).
- i) The biggest contributors to the positive performance were allocations to Japanese equities in both the financial and non-financial sectors. Rising global yields hit some parts of the portfolio, but boosted Japanese banks and insurers. Japanese equities markets were also boosted by the yen's weakness against the dollar with property stocks and industrials such as Mitsubishi Electric made strong gains.
- j) The main detractor from performance was inflation linked bonds, having performed very strongly for most of 2016, long dated inflation-linked bonds gave back some of the years gains in a global sell-off. Gold and gold equities also detracted from performance, due to rising interest rates and a strong dollar.
- k) Portfolio activity in the quarter:

- Equities - Due to the volatility in today's markets, there was not much activity in the equity position for most of the year. The only significant activity was to move the equity exposure into value/cyclical stocks in the last quarter. They still remain confident in the Japanese exposure in the portfolio.
 - Currencies - Ruffer reduced exposure to non-sterling currencies in 2016, the portfolio now has 89% currency allocation in sterling, which they feel is undervalued since Brexit but do not expect it to go much lower. This position is also a protective move, hedging against the equities allocation (if equities are up currency falls and vice versa).
- l) Ruffer said that the 'all weather' characteristics of the portfolio held true (maintaining a balance of protection and growth) and has demonstrated resilience when market conditions change. The portfolio was positioned so that the portfolio made money as bond yields fell for most of 2016, whilst also showing gains when these moves reversed and markets altered course in November.
- m) Ruffer believes that the portfolio was and is well positioned if interest rates rise as they see that the outcome of the Brexit vote, the uncertainties that remain over the UK's negotiations to leave the EU, and the US election and the then anticipation of a Trump presidency was to see these events as another step on the path to inflation.
- n) Ruffer's exposure to non-sterling currencies had reduced over 2016 so we asked if they viewed political uncertainty as a barrier to take a meaningful currency positions at this time. They said that the political uncertainty did inform the currency position and the 89% allocation to sterling, is partly due to the fact that it is undervalued at the moment, but also that it was doing a protective job, hedged against fall in equities.
- o) Given the fund will have an effective obligation to become a signatory to the UK Stewardship Code, we asked Ruffer to provide an overview of their ESG principles and how they incorporate these within their investment process? Ruffer said that they had comprehensive ESG policies and provided us with their current documents in terms of their statements on the UK and Japanese Stewardship codes, and their overarching document on ESG, Stewardship and Voting. They also provided a copy of their Annual ESG Report for 2015.
- p) Ruffer's Approach to the principles of the code: Ruffer supports the principles of the UK Stewardship Code as a guide for good practice

engagement with their investee companies; they actively seek to integrate environmental, social and corporate governance issues into their investment Process, and believe that ESG factors are often a signal of management quality, particularly over the long term. Ruffer follows a responsible investment approach by employing a dedicated manager for responsible investment and ESG issues. The ESG manager partners closely with analysts in Ruffer's Research Team to help raise awareness of potential risks, such as exposure to companies that are more likely to face litigation or reputational harm as a result of poor management of the impact of their operations on the environment or society. Ruffer uses ESG research provided by EIRIS to understand risks and opportunities at different stages in the investment process.

- q) Clemmie Vaughan is taking up the position of CEO with effect from 1 April 2017, with Henry Maxey relinquishing his CEO responsibilities; we asked what benefits they envisage arising from this change. They said that Henry Maxell took on a joint role as CEO along with his CIO responsibilities, now Clemmie Vaughan has been appointed he has been released to focus all his expertise on CIO activities.

4.6. UK Equities - London CIV (Baillie Gifford Global Alpha)

- a) This mandate transferred to the London CIV on the 11 April 2016.
- b) In accordance with agreed procedures officers last met with representatives from Baillie Gifford on the 4 February 2016 at which a review of their performance as at 31 December 15 was discussed.
- c) Since the transfer the London CIV will oversee the monitoring and review of the performance of this mandate and representatives from the London CIV met with the Committee on the 13 December 2016. An overview of performance as at 30 September 2016 for mandates within the London CIV was discussed.
- d) The value of the Baillie Gifford Global Equities mandate fund increased by £3.93m over the last quarter.
- e) The Global Alpha Fund delivered a return of 3.92% over the quarter, underperforming the benchmark by -2.51%. Since inception with the London CIV the fund returned 25.47% underperforming the benchmark by -0.37%.

4.7. Multi Asset Manager – London CIV (Baillie Gifford Diversified Growth Fund)

- a) This mandate was transferred to the London CIV on the 15 February 2016.
- b) In accordance with agreed procedures officers met with representatives from Baillie Gifford on the 4 February 2016 at which a review of their performance as at 31 December 15 was discussed.
- c) Since the transfer the London CIV will oversee the monitoring and review of the performance of this mandate and representatives from the London CIV met with the Committee on the 13 December 2016. An overview of performance as at 30 September 2016 for mandates within the London CIV was discussed.
- d) The value of the Baillie Gifford DGF mandate increased by £1.60m over the last quarter.
- e) The Diversified Growth mandate delivered a return of 2.01% over the quarter and 11.60% since inception with the London CIV. The Sub-fund's objective is to achieve long term capital growth at lower risk than equity markets and therefore is not measured against a benchmark.

5. Corporate Governance Issues

The Committee, previously, agreed that it would:

1. Receive quarterly information from each relevant Investment Manager, detailing the voting history of the Investment Managers on contentious issues. This information is included in the Managers' Quarterly Reports, which will be distributed to members electronically.
2. Receive quarterly information from the Investment Managers, detailing new Investments made.
 - Points 1 and 2 are contained in the Managers' reports.
3. Voting – Where the fund does not hold a pooled equity holding, Members should select a sample of the votes cast from the voting list supplied by the managers (currently only Ruffer) which is included within the quarterly report and question the Fund Managers regarding how Corporate Governance issues were considered in arriving at these decisions.

This report is being presented in order that:

- The general position of the Fund is considered plus other matters including any general issues as advised by Hymans.
- Hymans will discuss the managers' performance after which the particular manager will be invited to join the meeting and make their presentation. The managers attending the meeting will be from:

Royal London and UBS

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

IMPLICATIONS AND RISKS

Financial implications and risks:

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

Legal implications and risks:

None arising directly

Human Resources implications and risks:

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

Equalities implications and risks:

None arising that directly impacts on residents or staff.

BACKGROUND PAPERS

Royal London Quarterly report to 31 December 2016
UBS Quarterly report to 31 December 2016
London CIV Quarterly report to 31 December 2016
GMO Quarterly Report 31 December 2016
The WM Company Performance Review Report to 31 December 2016

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PENSIONS COMMITTEE

14 March 2017

Subject Heading:	PENSION FUND AUDIT PLAN 2016/17
CMT Lead:	Debbie Middleton
Report Author and contact details:	<i>Debbie Ford</i> <i>Pension Fund Accountant</i> <i>01708432569</i> Debbie.ford@onesource.co.uk
Policy context:	Planned audit of the 2015/16 Pension Fund Accounts
Financial summary:	Indicative fee scale is £21,000.

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 Audit Plan as issued by Ernst & Young LLP for the work they plan to undertake for provision of an audit opinion on the pension fund accounts for the year ending 31 March 2017.

RECOMMENDATIONS

That the Committee:

1. Note the 2016/17 Audit Plan, and
2. Considers whether there are other matters which the committee believes may influence the audit.

REPORT DETAIL

1 **Background**

- 1.1. Ernst and young are the Councils appointed auditors for the financial years 2015/16 and 2016/17. This will be the second audit undertaken by Ernst & Young for the Havering Pension Fund.
- 1.2. The Audit Plan sets out the work that Ernst and Young plan to undertake in order to provide an audit opinion on the financial statements of the Havering Pension Fund and whether they give a true and fair view of the financial position as at 31 March 2017. They will also review the Pension Fund's Annual Report.
- 1.3. The Audit Plan for the Pensions Fund was presented to the Audit Committee on the 1 March 2017.
- 1.4. It is expected that the audit of accounts will be completed by August and the final audit report will be presented to the Audit Committee and Pensions Committee at the September meetings.
- 1.5. The Audit Plan can be seen as attached in **Appendix A**.

IMPLICATIONS AND RISKS

Financial implications and risks:

The agreed fee of £21,000 is based on the following assumptions:

- Officers meeting the agreed timetable of deliverables;

- Appropriate quality of documentation is provided by the Pension Fund; and
- The Pension Fund has an effective control environment

A variation to the fees will be sought if any of the above assumptions are not met.

No variation to the fees was required for the 2015/16 audit.

Legal implications and risks:

There are no legal implications arising directly from this report.

Human Resources implications and risks:

There are no immediate HR implications.

Equalities implications and risks:

None arising that directly impacts on residents or staff.

BACKGROUND PAPERS

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Havering Pension Fund

Year ending 31 March 2017

Audit Plan

February 2017

Ernst & Young LLP



Building a better
working world

Audit Committee
London Borough of Havering
Town Hall
Main Road
Romford RM1 3BB

16 February 2017

Dear Committee Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2016/17 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council and outlines our planned audit strategy in response to those risks.

We welcome the opportunity to discuss this Audit Plan with you on 1 March 2017, and subsequently with the Pensions Committee 14 March 2017, and to understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Melissa Hargreaves
Executive Director
For and on behalf of Ernst & Young LLP

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2. Financial statement risks.....	2
3. Our audit process and strategy	3
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Appendix B UK required communications with those charged with governance	10

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk).

The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment from 1 April 2015' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Plan is prepared in the context of the Statement of responsibilities. It is addressed to the Audit Committee, and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Overview

This Audit Plan covers the work that we plan to perform to provide you with:

- ▶ our audit opinion on whether the financial statements of Havering Pension Fund (the Pension Fund) give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2017 and the amount and disposition of the Fund's assets and liabilities as at 31 March 2017; and
- ▶ our opinion on the consistency of the Pension Fund financial statements within the Pension Fund annual report with the published financial statements of the London Borough of Havering Council.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- ▶ strategic, operational and financial risks relevant to the financial statements;
- ▶ developments in financial reporting and auditing standards;
- ▶ the quality of systems and processes;
- ▶ changes in the business and regulatory environment; and
- ▶ management's views on all of the above.

By considering these inputs, our audit focuses on the areas that matter and our feedback is more likely to be relevant to the Pension Fund.

We will provide an update to the Audit Committee and Pensions Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2017.

2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Pension Fund, identified through our knowledge of the Pension Fund's operations and discussion with those charged with governance and officers.

Significant risks (including fraud risks)	Our audit approach
Risk of management override	
As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements ▶ reviewing accounting estimates for evidence of management bias, and ▶ evaluating the business rationale for significant unusual transactions.
Other financial statements risks	Our audit approach
London Collective Investment Vehicle (CIV)	
During the current year, the Fund's investment holdings in the London CIV have increased significantly and accordingly we have assessed the valuation of the London (CIV) investment to be an area of financial statement risk in the current year.	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ testing the allocation of CIV assets and liabilities to Havering pension fund; and ▶ testing the valuation of the investments attributable to Havering Pension Fund.

2.1 Responsibilities in respect of fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

Based on the requirements of auditing standards our approach will focus on:

- ▶ identifying fraud risks during the planning stages;
- ▶ enquiry of management about risks of fraud and the controls to address those risks;
- ▶ understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ determining an appropriate strategy to address any identified risks of fraud; and
- ▶ performing mandatory procedures regardless of specifically identified risks.

3. Our audit process and strategy

3.1 Objective and scope of our audit

Under the Code of Audit Practice (the 'Code') our principal objectives are to review, and report on, the Pension Fund's financial statements to:

- ▶ form an opinion on the financial statements under International Standards on Auditing (UK and Ireland); and
- ▶ form an opinion on the consistency of the Pension Fund financial statements within the Pension Fund annual report with the published financial statements of the London Borough of Havering Council.

3.2 Audit process overview

Our audit involves:

- ▶ identifying and understanding the key processes and internal controls;
- ▶ where relevant reviewing the work of your internal auditors;
- ▶ reviewing and assessing the work of experts in relation to areas such as valuation of the Pension Fund to establish if reliance can be placed on their work; and
- ▶ substantive tests of detail of transactions and amounts.

Processes

Our intention is to undertake a fully substantive audit. We believe this to be the most efficient approach to gaining assurance over the transactions and balances reported in the Pension Fund's financial statements.

In addition to this, we will review the overall control environment established by the Pension Fund, and review the findings of independent ISAE 3402 assurance reports, for the custodian and fund managers, and assess if there are any issues reported that might impact on our testing strategy.

We will also undertake work in accordance with our IAS19 protocol to provide requested information to the auditors of admitted bodies, including the London Borough of Havering Council.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ give greater likelihood of identifying errors than random sampling techniques.

Internal audit

As in the prior year we will review internal audit plans and the results of their work. We consider these when designing our overall audit approach and when developing our detailed testing strategy. We may also reflect relevant findings from their work in our reporting, where it raises issues that we assess could have a material impact on the year-end financial statements.

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are;

Area	Specialists
Pensions liability	<p>Hymans Robertson (the Pension Fund's Actuary)</p> <p>PwC review of the work of local government actuaries (including Hymans Robertson), commissioned by the National Audit Office.</p> <p>EY pensions team review of the work undertaken by PwC</p>

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Pension Fund's environment and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- ▶ assess the reasonableness of the assumptions and methods used;
- ▶ consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ assess whether the substance of the specialist's findings are properly reflected in the financial statements

3.3 Mandatory audit procedures required by auditing standards and the Code

As well as the financial statement risks outlined in Section two, we must perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- ▶ addressing the risk of fraud and error;
- ▶ significant disclosures included in the financial statements;
- ▶ entity-wide controls;
- ▶ reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- ▶ auditor independence.

Procedures required by the Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement.

We are also required to discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

3.4 Materiality

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined that overall materiality for the financial statements of the Pension Fund is £5.7 million based on 1% of net assets. We will communicate uncorrected audit misstatements greater than £286,000 to you.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all the circumstances that might ultimately influence our judgement. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

3.5 Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the National Audit Office Code.

The indicative fee scale for the audit of Havering Pension Fund is £21,000.

3.6 Your audit team

The engagement team is led by Melissa Hargreaves, who has significant experience of pension audits. Melissa is supported by Stephen Bladen who is responsible for the day-to-day direction of audit work and is the key point of contact for your finance and pension teams.

Debbie Hanson is the Executive Director leading our overall engagement with the London Borough of Havering and our relationship with the Audit Committee.

3.7 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit. The timetable includes the deliverables we have agreed to provide to the Pension Fund through the Audit Committee's cycle in 2016/17. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Chair as appropriate.

Following the conclusion of our audit of the Council and Pension Fund, we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Pension Fund and external stakeholders, including members of the public.

Audit phase	Timetable	Audit Committee timetable	Deliverables
Risk assessment and setting of scopes	January 2017	March 2017	Audit Plan
Testing routine processes and controls	January – February 2017	June 2017	Progress Report (We will report by exception if there are any significant matters arising at this stage of our audit).
Year-end audit	July – August 2017		
Completion of audit	August 2017	September 2017	Report to those charged with governance via the Audit Results Report Audit report , including our opinion on the financial statements Audit report on our opinion on the consistency of the financial statements within the Pension Fund annual report with the published financial statements.

4. Independence

4.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications	
Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by EY including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that we are independent; ▶ Details of any inconsistencies between APB Ethical Standards, the PSAA Terms of Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and ▶ An opportunity to discuss auditor independence issues.

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, for example when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future contracted services, and details of any written proposal to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period are disclosed, analysed in appropriate categories.

4.2 Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including any principal threats. However we have adopted the safeguards below to mitigate these threats along with the reasons why they are considered to be effective.

Self-interest threats

A self-interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Pension Fund.

We are the appointed auditors for the London Borough of Havering Council; we have no other business relationship with the Pension Fund or Council. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services, and we will comply with the policies that the Pension Fund has approved and that are in compliance with the PSAA Terms of Appointment.

At the time of writing, there are no planned non-audit fees.

A self-interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to the Pension Fund. We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

There are no other self-interest threats at the date of this report.

Self-review threats

Self-review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no other self-review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of your entity. Management threats may also arise during the provision of a non-audit service where management is required to make judgements or decisions based on that work.

There are no management threats at the date of this report.

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Overall Assessment

Overall we consider that the adopted safeguards appropriately mitigate the principal threats identified, and we therefore confirm that EY is independent and the objectivity and independence of Melissa Hargreaves, the audit engagement Director and the audit engagement team have not been compromised.

4.3 Other required communications

EY has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2016 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2016>

Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2016/17 £	Scale fee 2016/17 £	Outturn fee 2015/16 £
Total Audit Fee – Code work	21,000	21,000	21,000
Non-audit work	0	0	0

All fees exclude VAT.

We base the agreed fee presented above on the following assumptions:

- ▶ officers meeting the agreed timetable of deliverables;
- ▶ appropriate quality of documentation is provided by the Pension Fund; and
- ▶ the Pension Fund has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. We will discuss and agree any variation with the Pension Fund officers in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the Audit Committee. These are detailed here:

Required communication	Reference
Planning and audit approach	► Audit Plan
Communication of the planned scope and timing of the audit including any limitations.	
Significant findings from the audit	► Audit Results Report
<ul style="list-style-type: none"> ► Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ► Significant difficulties, if any, encountered during the audit ► Significant matters, if any, arising from the audit that were discussed with management ► Written representations that we are seeking ► Expected modifications to the audit report ► Other matters if any, significant to the oversight of the financial reporting process 	
Misstatements	► Audit Results Report
<ul style="list-style-type: none"> ► Uncorrected misstatements and their effect on our audit opinion ► The effect of uncorrected misstatements related to prior periods ► A request that any uncorrected misstatement be corrected ► In writing, corrected misstatements that are significant 	
Fraud	► Audit Results Report
<ul style="list-style-type: none"> ► Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ► Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ► A discussion of any other matters related to fraud 	
Related parties	► Audit Results Report
Significant matters arising during the audit in connection with the entity's related parties including, when applicable:	
<ul style="list-style-type: none"> ► Non-disclosure by management ► Inappropriate authorisation and approval of transactions ► Disagreement over disclosures ► Non-compliance with laws and regulations ► Difficulty in identifying the party that ultimately controls the entity 	
External confirmations	► Audit Results Report
<ul style="list-style-type: none"> ► Management's refusal for us to request confirmations ► Inability to obtain relevant and reliable audit evidence from other procedures 	
Consideration of laws and regulations	► Audit Results Report
<ul style="list-style-type: none"> ► Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ► Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	

Required communication	Reference
<p>Independence</p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement director's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Audit Results Report
<p>Going concern</p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	<ul style="list-style-type: none"> ▶ Audit Results Report
<p>Significant deficiencies in internal controls identified during the audit</p>	<ul style="list-style-type: none"> ▶ Audit Results Report
<p>Fee Information</p> <ul style="list-style-type: none"> ▶ Breakdown of fee information at the agreement of the initial audit plan ▶ Breakdown of fee information at the completion of the audit 	<ul style="list-style-type: none"> ▶ Audit Plan ▶ Audit Results Report ▶ Annual Audit Letter if considered necessary

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LOCAL PENSION BOARD

ANNUAL REPORT

2015/16



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Chair's opening remarks.

This year saw the introduction of the Local Pensions Board in Havering. It has been a privilege to be part of this and I would like to acknowledge the support and hard work of the council officers involved. Mo Jones, Debbie Ford and James Goodwin have been invaluable in terms of supporting the Board through its inception and as Chair I recognise the amount of work and effort that has been put in to ensure that the Board is not only up and running but also fit for purpose and enabled to deliver its function. It has been a year of learning and focus on planning to ensure the Board delivers on its objective and this is done independently of the London Borough of Havering to ensure the focus is on areas that the Board wishes to focus upon. My thanks also to my colleagues on the Board, who have contributed to the success of this year.

Justin Barrett

Chair of the Local Pensions Board

Introduction

1. Local Pension Boards are constituted entirely under the Public Service Pensions Act 2013 and are not local authority committees.
2. The role of each board is to help ensure each scheme complies with governance and administration requirements. They may have additional duties, if scheme or other regulations so specify.
3. Pension Boards need to have an equal number of employer representatives and member representatives. They may also have other types of members, such as independent experts. All pension board members have a duty to act in accordance with scheme regulations and other governing documents.
4. Scheme regulations (or scheme-specific guidance) may provide further detail on the scope of the pension board and how it should operate, for example how many pension board members need to attend a meeting and how often it should meet.

Role of the Local Pension Board

1. The role of the Local Pension Board, as defined by sections 5 (1) and (2) of the Public Service Pensions Act 2013, is to: -
 - Assist the London Borough of Havering Administering Authority as Scheme Manager:-
 - To secure compliance with the Local Government Pension Scheme (LGPS) regulations and any other legislation relating to the governance and administration of the LGPS;
 - To secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator;
 - In such other matters as the LGPS regulations may specify;
 - Secure the effective and efficient governance and administration of the LGPS for the London Borough of Havering Pension Fund;
 - Provide the Scheme Manager with such information as it requires ensuring that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest.
2. The Pension Board will ensure it effectively and efficiently complies with the code of practice of the governance and administration of public service pension schemes issued by the Pension Regulator;
3. The Pension Board will also help ensure that the London Borough of Havering pension Fund is managed and administered effectively and complies with the

code of practice on governance and administration of public service pensions schemes issued by the Pension Regulator;

4. The Pension Board shall meet sufficiently regularly to discharge its duties and responsibilities effectively;
5. In support of its core functions the Board may make a request for information to the Pensions Committee with regard to any aspect of the Administering Authority's function. Any such request should be reasonably complied with in both scope and timing;
6. In support of its core functions the Board may make recommendations to the Pensions Committee which should be considered and a response made to the Board on the outcome within a reasonable period of time.

Membership of the Board

The Board consists of 4 voting members, two representing employers and two representing scheme members.

Board members were appointed for a fixed term of 4 years, which could be extended for further periods subject to re-nomination.

Substitute members were not allowed.

Each Board member should endeavour to attend all Board meetings during the year and are required to attend at least 4 meetings each year, one of which must be the Annual Meeting.

In the event a Board member failed to attend three consecutive meetings, that individual would automatically be disqualified, unless failure was due to some reason approved by the Board before the date of the third consecutive meeting.

Justin Barrett and David Holmes were appointed as Employer representatives and Mark Holder and Marsha Jane Thompson as Scheme Member representatives.

Board Meetings

The Board was established by the London Borough of Havering on 25 March 2015. The first formal meeting took place on the 26 August. It met on three occasions up to the end of the financial year.

Meetings took place on 26 August and 7 October, 2015 and 6 January 2016. A further meeting was held outside of the board meetings on the 21 October 2015 to discuss and agree the development of the work plan for the board.

Matters discussed by the Board

The following matters have been discussed by the Board:

- Appointment of Chair – Justin Barrett was appointed Chair until the first meeting following the Annual Meeting.
- Terms of Reference – The Terms of Reference as revised were agreed and signed by the Chairman on the 26th August 2016.
- A draft Work Plan for the year was adopted which included :-
 - Fair Deal and TUPE Transfer;
 - Review of Governance Compliance Statement, training and development strategy and how this is implemented;
 - Tendering Processes for Fund Managers;
 - Pooled Investments;
 - Risk Strategy Review;

- Pensions Administration Strategy and Benchmarking;
 - Early Redundancy Gap – Impact on Pensions; and
 - Rationalisation of member Organisations and Impact on deficit payments.
- The areas of the work plan discussed were:-
 - Fair Deal and TUPE Transfer
 - Review of Governance Compliance Statement, Training and Development Strategy
 - Collective Investment Vehicle
 - Details of the Board's budget was discussed, this included provision for the training of Board members.
 - Pensions Committee Annual Report 2014/15

There have been no conflicts of interest involving any of the work undertaken by the board or during any agenda items.

Training

The board are committed to the legal requirement to acquire the appropriate knowledge and skills and to demonstrate and evidence these legal requirements. To do this the Committee and the Board jointly adopted the CIPFA Knowledge and Skills Framework (KSF) on the 24 November 2015, hence it has adopted a register that shows that the training and development being undertaken is working towards meeting this. The register can be found in Appendix 1.

To summarise:

Whole Board training has been completed on Fair Deal and TUPE, the fundamentals of the Pension Act and role of the Actuary which were delivered by Hymans Robertson the Actuary procured by the London Borough of Havering.

Members have also attended an LGPS Board Seminar that was delivered by the Pensions and Lifetime Savings Association.

Individuals have also completed on-line learning from the Pensions Regulator as well as other self-directed learning which includes reading and e-learning.

All members have undertaken a training needs analysis.

Training has been planned for the future which is detailed in Appendix 2. The shaded areas are for dates following the publication of the annual report.

LOCAL PENSION BOARD

FINANCIAL POSITION

Section 106(9) of the Local Government Pension Scheme Governance Regulations 2015 states that the expenses of a Local Pension Board (LPB) are to be regarded as part of the costs of administration of the fund held by the administering authority.

Guidance issued in January 2015 suggested that it was appropriate for the LPB to be given adequate resources to fulfil its task.

Terms of reference adopted by Governance Committee on the 11 March 2015 and then the Council meeting on the 25 March 2015 also states that the LPB is to be provided with adequate resources to fulfil its role.

The estimated budget agreed by the Administering Authority's section 151 officer and costs incurred for 2015/16 are shown in the following table:

Description	2015/16 Estimate £	2015/16 Actual £	2016/17 Estimate £	2017/18 Estimate £	2018/19 Estimate £
Members Allowance & Travelling	3,000	1,346	3,000	3,000	3,000
Support Services – Internal Recharge	8,000	880	8,000	8,000	8,000
Printing, Stationary & Office Expenses	3,400	3,348	3,400	3,400	3,400
Communication & Computing	500	0	500	500	500
Professional Advice	10,000	0	10,000	10,000	10,000
*Training & Development	10,000	6,038	10,000	10,000	10,000
Total	34,900	11,612	34,900	34,900	34,900

*Training costs of £10,000 is to be shared with the Pensions Committee to keep officer time and training costs to a minimum. The amounts shown above represent the LPB share of the costs.

Budgets have been set to cover a four year period to reflect the period of term that the LPB appointees will serve

2015/2016 was the first operational year of the LPB and once the spend patterns are established, budgets may be reviewed to reflect changes required. The LPB is

accountable to the Administering Authority and prior approval will need to be sought from the Section 151 officer to amend budgets.

The cost for the LPB is met from the Havering Pension Fund and approved by the Council's Section 151 Officer.

The Future

The work plan agreed for 2015/16 had been a first step to try to identify key matters which needed to be considered. With a number of meetings held we were now in a better place to consider a work plan for 2016/17.

A key area to consider in 2016/17 is Pensions Administration. We were aware that the oneSource finance team were being reorganised and we need to ascertain from the Pension Committee whether or not they were confident that the proposed structure is adequate to meet all the demands placed upon it.

We will seek clarity from the Pensions Committee whether they are happy with the Pension Administration performance in achieving or not achieving its KPI's and whether those measures were the ones which they should be focussing on.

We wish to finalise our review of Fair Deal and TUPE and have a report on how the current changes, i.e. introduction of Multi Academy Trusts and College reorganisation would impact on the Pension Scheme. A national programme of area sector based reviews of the further education sector is underway, the objective of which is to create fewer, more sustainable and more specialised colleges. We understand that under current proposals colleges could merge, not necessarily on geographic location and staff could be transferred from one scheme to another. With regard to risk assessment we would be seeking an assurance that the risk strategy had been updated to meet the current needs with specific reference to the possible threats to Havering.

The Work Plan will be a live document and subject to change as necessary with a particular focus on the development of the CIV and how this will be implemented.

The work plan will be reviewed on 27 January 17 to focus on Code of Practice no. 14 Governance and administration of public service pension schemes published by the Pensions Regulator. The board will seek assurances from Havering officers that the delivery of the scheme is compliant to this code.

Appendix 1 – Training Record to 31st March 2016

Date	Topic	Location	KSF	Cost	Attendee
29 June 2015	<p>Hymans – Fund Actuary delivered training:</p> <p>Why we are here</p> <p>Roles & Responsibilities</p> <p>Knowledge & Skills</p> <p>Brief overview of LGPS</p>	Hyman's Office – One London Wall	KSF 1	£3,500 (shared equally between LBH and Redbridge)	<p>Justin Barrett – Employer rep</p> <p>Mark Holder - Member rep</p> <p>Marshajane Thompson – Member rep</p> <p>David Holmes – Employer Rep</p>
12 Aug 2015	<p>Officers - Local Pension Board Induction 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 ○ Valuation ○ LPB reporting requirements 	Town Hall – Prior to Local Pension Board meeting	KSF 1,2,4, 5 & 6	Officer Time	<p>Mark Holder - Member rep</p> <p>Justin Barrett – Employer rep (chair)</p>
6 Jan 2016	<p>Hymans – Fund's Actuary delivered TUPE Transfer Training, covered:</p> <ul style="list-style-type: none"> • What is TUPE • Pension Protection & Regulations • Admission bodies documents & securities • Cessations 	Town Hall – prior to Local Pension Board meeting	KSF 6	£3,500	<p>Mark Holder - Member rep</p> <p>Justin Barrett – Employer rep (chair)</p>

Appendix 2 – Training Planned from 1st April 2016

Date	Topic	Location	KSF	Cost	Attendee
25 April 2016	Pensions & Lifetime Savings Academy (PLSA) covered: <ul style="list-style-type: none"> Governance Structure of LGPS TPR approach to governance & Admin Purpose & Responsibilities of National & Local Pensions Boards 	PLSA Offices, London	KSF 1	£450.00 + VAT	Mark Holder
15 June 2016	Pensions & Lifetime Savings Academy (PLSA) covered: <ul style="list-style-type: none"> Governance Structure of LGPS TPR approach to governance & Admin Purpose & Responsibilities of National & Local Pensions Boards 	PLSA Offices, London	KSF 1	£900.00 + VAT	Marshajane Thompson Justin Barrett
7 October 2016	Eversheds – LGPS: New Challenges, covered: <ul style="list-style-type: none"> Update on LGPS Pooling New Fair Deal update 2016 Valuations Legal, Investment & Brexit update 	Eversheds, one Wood Street, London	KSF 1 & 6	£100?	David Holmes
Various	Pensions Regulator Toolkit <ul style="list-style-type: none"> Conflicts of interest Maintaining accurate member data Managing Risks and internal controls Maintaining member 	online	KSF 1 KSF 2 KSF 1		Mark Holder Mark Holder Mark Holder

Date	Topic	Location	KSF	Cost	Attendee
	contributions		KSF 2		Mark Holder
3 Nov 2017	Association of Colleges	Webinar	?		David Holmes
28 Nov 2016	Pensions & Lifetime Savings Academy (PLSA) covered: Governance Structure of LGPS <ul style="list-style-type: none"> • TPR approach to governance & Admin • Purpose & Responsibilities of National & Local Pensions Boards 	PLSA Offices, London	KSF 1	£450.00 + VAT	David Holmes
28 June 2017	CIPFA & Barnett Waddingham – Local Pension Boards Two years on	Cheapside House, 138 Cheapside, London EC2V		£175	David Holmes Mark Holder
TBA	Joint training with Pensions Committee - Hymans covering valuation results and assumptions	Havering	KSF 6	?	

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