



# Havering

L O N D O N   B O R O U G H

## PENSIONS COMMITTEE AGENDA

<b>7.00 pm</b>	<b>Tuesday 19 September 2017</b>	<b>Committee Room 2 - Town Hall</b>
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Members 7: Quorum 3

### COUNCILLORS:

**Conservative  
( 3 )**

John Crowder  
(Chairman)  
Melvin Wallace  
Joshua Chapman

**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)**

**For information about the meeting please contact:**

**Debra Marlow 01708 433091  
debra.marlow@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 15<sup>th</sup> June, 2017 and authorise the Chairman to sign them.

### **5 LOCAL AUTHORITY PENSION FUND FORUM MEMBERSHIP (Pages 7 - 36)**

### **6 IMPLEMENTATION OF THE MARKETS IN FINANCIAL INSTRUMENTS DERIVATIVE (MIFID 11) (Pages 37 - 68)**

### **7 PENSION FUND ACCOUNTS 2016/17 (Pages 69 - 104)**

### **8 PENSION FUND ANNUAL REPORT - YEAR ENDED 31 MARCH 2017 (Pages 105 - 296)**

### **9 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.

### **10 EXCLUSION OF THE PUBLIC**

To consider whether the public should now be excluded from the meeting when discussing agenda items 11 and 12 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.

- 11 PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED JUNE 2017** (Pages 297 - 390)
- 12 IMPLEMENTATION OF INVESTMENT STRATEGY UPDATE** (Pages 391 - 398)

**Andrew Beesley**  
**Head of Democratic Services**

**MINUTES OF A MEETING OF THE  
PENSIONS COMMITTEE  
Committee Room 3A - Town Hall  
15 June 2017 (7.00 - 9.50 pm)**

**Present:**

**COUNCILLORS**

<b>Conservative Group</b>	John Crowder (Chairman), Steven Kelly (In place of Melvin Wallace) and Philippa Crowder (In place of Jason Frost)
<b>Residents' Group</b>	Stephanie Nunn
<b>East Havering Residents' Group</b>	Clarence Barrett
<b>UKIP Group</b>	David Johnson (Vice-Chair)
<b>Trade Union Observers:</b>	Andy Hampshire

Apologies were received for the absence of Councillors Nic Dodin, Jason Frost and Melvin Wallace and (UNISON)..

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

**1 DISCLOSURE OF INTERESTS**

There were no declarations of interest.

**2 MINUTES OF THE MEETING**

The minutes of the meetings of the Committee held on 14 and 28 March 2017 subject to the addition of Councillor Ray Morgan's name in the list of those in attendance for the meeting on 28 March 2017.

**3 REVIEW OF PENSIONS ADMINISTRATION**

Officers advised the Committee that in recent years it had become extremely difficult to recruit and retain skilled, knowledgeable and experienced staff to work in Pensions Administration. In addition to the core

administration process, the key business requirements for Pensions Administration were:

- provision and maintenance of accurate and complete data sets and information;
- provision of a robust and resilient service to its members;
- guidance and support to implement new government legislation and new processes;
- development of robust customer relationships with employers and members;
- review the processes and procedures in the service to avoid duplication to eliminate waste;
- provision of effective, accurate management information and business intelligence to shape the service to provide value for money;
- reduction of manual input to reduce errors and maximise efficiency;
- provision of robust technical expertise that can be utilised to improve the service;
- engagement with scheme members and employers to enable legislative changes to be considered and adhered to;
- provision of self-service to enable members to access information;
- exploiting IT and the digital agenda to provide easy use and access to information for the team and members and ensure data consistency and accuracy.

Officers had researched a number of options for consideration by the Committee. The costs of each option were identified together with the advantages, risks and issues of a preferred option.

The Committee sought clarification on a number of the costs, which officers provided. After considerable discussion the Committee agreed to:

1. Ask the Council to agree Option 4, (subject to agreement by Lancashire County Council) that Havering Council enter into an arrangement under section 101 of the Local Government Act 1972 for the discharge by Lancashire County Council of the functions of Havering Council in respect of pensions administration from 1<sup>st</sup> October 2017 for a rolling annual period.
2. Ask the Council to delegate to the Managing Director of oneSource authority, after consultation with the Cabinet Member for Financial Management, to agree the final terms of the arrangements with Lancashire County Council and incorporate those into an agreement subject to those terms being in the best interests of Havering Council.
3. Delegate to the Managing Director of oneSource, after consultation with the Cabinet Member for Financial Management, power to consider any consultation required and consider the Equality Impact Assessment and make any changes she considers necessary in

order to give effect to the arrangements proposed in these recommendations.

4. Ask the Council to agree the recruitment of a Projects and Contract Manager.
5. Note that over a 5-year period, the total cost of the service to the Pension Fund was estimated to decrease by £76,900 and would deliver a robust, resilient and future proofed service. This would include the recruitment of a Projects and Contract Manager for Havering at annual cost of up to £57,791 to be funded by the Pension Fund budget.
6. Note that project implementation costs of the new arrangements would be £78,240 to be financed from the Pension Fund budget.

#### 4 **PERFORMANCE MONITORING REPORT TO END OF MARCH 2017**

Officers advised the Committee that the net return on the Fund's investments for the fourth quarter to 31 March 2017 was 3.7%. This represented an outperformance of 1.5% against the tactical benchmark and represented an outperformance of 1.3% against the strategic benchmark.

The overall net return for the financial year to 31 March 2017 was 17.1%. This represented an outperformance of 4.0% against the tactical combined benchmark and an under performance of -3.7% against the annual strategic benchmark.

At the close of business on 31 March 2017 the total combined value of the fund was £671.14m this represented an increase of £23.09m from the position at the close of business on 31 December 2016. The fund had seen a further increase of approx. £10m by mid June.

Officers advised that the Department of Communities and Local Government had issued revised guidance last September which had relaxed the regulatory framework for scheme investments and also the requirement to review investment manager performance. In the light of this relaxation officers had recommended that in future the Committee only see one fund manager at a meeting. This would mean a 15 month cycle for the five fund managers. If there were any specific matters of concern arrangements would be made to see managers more frequently.

The Committee:

1. **Noted** the summary of performance of the Pensions Fund;
2. **Agreed** to the change in the frequency they see Fund Managers;
3. **Noted** the quarterly reports provided by each investment manager;  
and
4. **Noted** the analysis of the cash balances.

**5 BUSINESS PLAN/ANNUAL REPORT ON THE WORK OF THE COMMITTEE**

Officers had produced the Business Plan/Annual report for the Pensions Committee for 2016/17. This included the plan of work for 2017/18.

Having discussed the Business Plan/Annual Report the Committee **agreed** the plan as submitted and referred it to Council for consideration.

**6 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.

**7 HYMANS PERFORMANCE REPORT**

The representative from Hymans Robertson provided the Committee with a review of fund performance for the quarter ending 31 March 2017. A series of rebalancing actions previously agreed by the Committee had been completed during the quarter.

With one minor exception all the Fund Managers had out performed their benchmarks.

The report was **noted**.

**8 FUND MANAGER PRESENTATION - GMO**

Representatives from GMO attended the meeting to update the Committee on their performance over the quarter and since they last appeared before the Committee. The Global Real Return (UCITS) Fund had performed well and the changes introduced last year were having a positive impact on performance.

The Committee **noted** the report.



9 **INDEPENDENT HEALTH CHECK - PRESENTATION**

A representative of Allenbridge, an Independent Investment Adviser, attended the meeting to brief the Committee on the outcome of the independent 'health check' of the Fund's long term investment strategy and the progression of the investment strategy. On the whole the 'health check' provided a positive view of the strategy.

With regard to the review of one particular Fund Manager the Independent Adviser concurred with the view expressed by Hymans that the Fund Manager be retained.

The Committee **noted** the report.

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**Chairman**

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## PENSIONS COMMITTEE

**19 SEPTEMBER 2017**

**Subject Heading:**

**LOCAL AUTHORITY PENSION FUND  
FORUM MEMBERSHIP**

**CMT Lead:**

**Debbie Middleton**

**Report Author and contact details:**

*Debbie Ford*  
*Pension Fund Accountant*  
*01708432569*

**Policy context:**

[Debbie.ford@onesource.co.uk](mailto:Debbie.ford@onesource.co.uk)

**Financial summary:**

Investment Strategy Statement and its views on the exercise of rights (including voting rights) attaching to investments  
Annual subscription of £8,250 or £8,460 - dependent on years of membership

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

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

<b>SUMMARY</b>
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This report provides the committee with an overview of the Local Authority Pension Fund Forum (LAPFF).

A representative from the LAPFF will be making a presentation to the committee and officers are requesting that the committee consider whether the Havering Pension Fund (the 'Fund') should become members of the LAPFF.

## **RECOMMENDATIONS**

The Committee:

1. Consider whether the Fund should become members of the LAPFF, and if so,
2. Note that the Investment Strategy Statement will need to be amended to reflect the membership of the LAPFF and this to be incorporated at the next review and,
3. Agree to sign up for an annual or three year subscription.

## **REPORT DETAIL**

### **1 Background**

- 1.1 The Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulations 2016 paragraph 7 (2) (f) states that the authority's investment strategy must include the authority's policy on the exercise of rights (including voting rights) attaching to investments.
- 1.2 In line with regulations (above) and guidance the current Investment Strategy Statement includes the following :
  - a. "The Fund's investments through the London CIV are covered by the voting policy of the CIV which has been agreed by the Pensions Sectoral Joint Committee. Voting is delegated to the external managers and monitored on a quarterly basis. The CIV will arrange for managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions."
  - b. "...the Committee has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The Committee monitor the voting decisions made by all its investment managers

and receive reporting from their advisers to support this on an annual basis.

- 1.3 At the 28 March 2017 Pensions Committee meeting members agreed to receive a further report on the LAPFF in order to establish whether the Havering Pension Fund should become members.
- 1.4 A representative from the LAPFF will also be making a presentation to the committee to explain the role of the LAPFF and to answer any questions the committee may have. The presentation is attached as **Appendix A**.
- 1.5 The LAPFF also produce a standard template for Administering Authorities to use for submission to their committees that also outlines their role and is shown in the following section.

## **2 LAPFF Report**

- a) The Local Authority Pension Fund Forum (LAPFF) is a voluntary association of local authority pension funds and membership is open to all Local Government Pension Scheme (LGPS) funds. The Forum:
  - i. Seeks to protect and enhance the value of members shareholdings by optimising Local Authority pension funds' influence as shareholders on ESG (environmental, social and governance issues) and thereby to promote Corporate Social Responsibility (CSR) and high standards of Corporate Governance
  - ii. Facilitates commissioning of research and policy analysis of issues more effectively than individual members
  - iii. Provides a forum for consultation on shareholder initiatives
  - iv. Provides a forum for information exchange and discussion about any investment issues
  - v. Provides a forum to consider issues of common interest to all pension fund administrators and trustees.
- b) The Forum has 4 business meetings a year plus an AGM and an annual conference with each member fund having one vote at meetings. LAPFF contracts PIRC (Pensions Investment Research Consultants) to supply technical research, advice and assistance on all matters relating to best practice in corporate governance and corporate social responsibility. It also employs a part-time Forum Officer (a former City/County Treasurer) to assist with the promotion of its activities.
- c) The Forum currently has 72 local authority members including 26 English counties; 22 London authorities (including the City of London Corporation and the LPFA); 8 English metropolitan/ unitary authorities; 8 Welsh authorities; 4 Scottish authorities; NILGOSC (the Northern Ireland Local Government Officers Superannuation Committee), The Environment Agency and 2 passenger transport authorities.

- d) LAPFF member funds now control assets of around £190 billion. The annual cost of membership would be the annual subscription of £8,460 or £8,250 pa for a three year membership. (This subscription has been held at the same level for the past nine years as more funds have joined the Forum – LAPFF membership has increased by 300% since 2003.
- e) Benefits of membership would include:-
- i. Supporting shareholder value through engagement and activism on issues relating to ESG issues.
  - ii. Strength in numbers when engaging with companies at the highest level (i.e. Chairperson or other senior board members)
  - iii. Collective and more cost effective approach to research
  - iv. Saving of officer time and cost in researching issues
  - v. Sharing research costs with 72 Forum member funds
  - vi. Providing a Forum for discussion of any related local government pension fund issue
  - vii. Opportunities for networking with colleagues from all parts of UK and all types of authority
  - viii. Facilitating collaboration with other major institutional investor groups both nationally and internationally.
  - ix. The Forum's aims are to provide a customised, cost effective vehicle for local authority pension funds to make their compliance with Myners principle 5 (responsible ownership) more effective.
- f) Membership of LAPFF would further demonstrate the Fund's commitment to socially responsible investment and the promotion of high standards of corporate social responsibility (on environmental, social and governance issues etc) and re-enforce our aim to maximise shareholder value.
- g) It is now widely accepted that it is in all shareholders' interests to promote high standards of corporate governance and corporate social responsibility. The Havering Pension Fund has for many years been actively interested in promoting good corporate governance. Corporate governance can be defined **narrowly** as the relationship of a company with its shareholders and how it governs its activities, or more **broadly** as its relationship to society on environmental, social and governance (ESG) issues.
- h) The Cadbury Report on Corporate Governance in 1992 defined corporate governance as:
- i. *" the system by which companies are directed and controlled. Boards of directors are responsible for the governance of their companies, while shareholders' role in governance is to appoint the directors and auditors and to satisfy themselves that a proper governance structure is in place. "*
  - ii. or as the Financial Times put it *"Corporate governance can be defined narrowly as the relationship of a company with its shareholders or more broadly, as its relationship to society"*

i) Cipfa Guidance:

- i. -The Myners Principles were updated in 2008 when the original ten principles were distilled down to six principles. Principle 5 relates to Responsible Ownership and in this context the *CIPFA Guide to the application of the revised Myners Principles* says:-
- ii. *“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. **For example, the Local Authority Pension Fund Forum (LAPFF) exists to promote the investment interests of local authority pension funds, and to maximise their influence as shareholders while promoting corporate social responsibility and high standards of corporate governance among the companies in which they invest.**”*

2.1 Whilst the new LGPS (Management and Investment of Funds) Regulations 2016 has removed the requirement to publish compliance against the six Myners principles the Committee agreed to still publish and explain compliance against these principles to demonstrate best practice. This was published voluntarily with the new Investment Strategy Statement in March 2017.

3.2 If members decide to join the LAPFF then this decision will need to be reflected in the Investment Strategy Statement. Results of any annual reviews will be presented to the Pensions Committee in November so officers suggest that any changes required are incorporated at that time.

<b>IMPLICATIONS AND RISKS</b>
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**Financial implications and risks:**

The annual cost of membership would be the annual subscription of £8,460 or £8,250 pa for a three year membership. The LAPFF have managed to hold the subscription at the same level for the past nine years due to the increase in membership.

The membership costs would be met from the pension fund.

The LAPFF offer a service that is not currently delivered by officers. In support of the Committee's ongoing monitoring requirements, the Fund will still produce an

annual update on responsible investment activities undertaken by the Fund's Investment Managers.

Being an LAPFF member would demonstrate the Fund's commitment to enhancing the Fund's position on socially responsible investment and engagement.

**Legal implications and risks:**

None arise directly from this report

**Human Resources implications and risks:**

None arise from this report.

**Equalities implications and risks:**

None arise from this report.

<b>BACKGROUND PAPERS</b>
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Background Papers List

None





Local Authority  
Pension Fund  
Forum



# *APPENDIX A*

## Protecting Shareholder Value

*The role of the LAPFF*

Keith Bray  
Forum Officer

19 September 2017

# Agenda

1. About the LAPFF
2. Corporate Governance and Corporate Social Responsibility
3. Approaches to activism
4. Some engagement results
5. The future with LGPS Pools

# The Role of the LAPFF

The Forum is a voluntary association of LGPS funds which seeks to **protect and enhance the value of its members' shareholdings** by way of shareholder engagement, by action on corporate governance issues and by seeking to promote the highest standards of corporate social responsibility at the companies in which LAPFF members invest

# LAPFF – What we are about

In pursuing its aim to protect and enhance shareholder value the Forum is a voluntary association of LGPS funds which

- seeks to optimise LGPS pension funds' influence as shareholders to promote high standards of Corporate Governance and Corporate Social Responsibility
- facilitates commissioning of research and policy analysis of issues relating to areas of concern more effectively than individual members
- provides a forum for consultation on shareholder initiatives, information exchange and discussion about investment issues
- provides a forum to consider any issues of common interest to all pension fund administrators and trustees (e.g. the pooling of investments and the use of collective investment vehicles (CIV's))

# LAPFF - Membership

Currently 72 Local Authority pension funds

- 27 English Counties
  - 22 London Authorities
  - 8 English/ Metropolitan/Unitary Authorities
  - 4 Scottish Authorities
  - 8 Welsh Authorities
  - 2 Passenger Transport Authorities
  - The Environment Agency
- £200 billion in value (Strength in numbers)
  - **Membership open to all LGPS pension funds**

# LAPFF – Members as at 19 September 2017

Avon Pension Fund	LB Camden	Northamptonshire CC
Bedfordshire Pension Fund	LB Croydon	Northumberland CC
Cardiff and Vale of Glamorgan Pension Fund	LB Ealing	North East Scotland Pension Fund
Cambridgeshire Pension Fund	LB Enfield	North Yorkshire CC
Cheshire Pension Fund	LB Greenwich	Nottinghamshire CC
City and Country of Swansea	LB Hackney	Powys Pension Fund
Clwyd Pension Fund	LB Haringey	Rhondda Cynon Taff
Corporation of the City of London	LB Harrow	Shropshire County Pension Fund
Cumbria CC	LB Hounslow	Somerset CC
Dyfed Pension Fund	LB Islington	South Yorkshire Pension Fund
Devon CC	LB Lambeth	Sheffield City Region Combined Authority
Derbyshire CC	LB Lewisham	Staffordshire Pension Fund
Dorset County Pension Fund	LB Newham	Strathclyde Pension Fund
Durham CC	LB Redbridge	Suffolk Pension Fund
East Riding Pension Fund	LB Southwark	Surrey CC
East Sussex CC	LB Sutton	Teeside Pension Fund
Falkirk Council	LB Tower Hamlets	The Environment Agency
Gloucestershire CC	LB Waltham Forest	Tyne and Wear Pension Fund
Greater Gwent Fund	LB Wandsworth	Warwickshire Pension Fund
Greater Manchester Pension Fund	Lincolnshire CC	West Midlands Pension Fund
Gwynedd Pension Fund	Lothian Pension Fund	West Midlands PTA Pension Fund
Hertfordshire CC	London Pension Fund Authority (LPFA)	West Yorkshire Pension Fund
Lancashire County Fund	Merseyside Pension Fund	Wiltshire CC
LB Barking & Dagenham	NILGOSC	Worcestershire CC
	Norfolk Pension Fund	

# LAPFF – our structure

## MEETINGS

- 4 Business Meetings a year, Annual General Meeting
- Each member Fund has one vote at meetings, irrespective of size, but decisions usually taken by consensus
- Forum Executive
- Annual Conference (members receive two complimentary places)

## PUBLICATIONS

- Trustee guides, monthly bulletins, quarterly engagement reports & annual report , website ([www.lapfforum.org](http://www.lapfforum.org) )

## CONTRACTS

- PIRC contracted to supply research, advice and assistance to LAPFF
- Forum Officer – liaison with prospective members and members. (Part-time)

**The LAPFF has been granted Special Interest Group (SIG) status by the Local Government Association (LGA)**

# Areas of concern for responsible owners

## Environmental, Social & Governance (ESG) issues

- Boardroom structures
- Directors' remuneration
- Appointment of and role of auditors
- Accounting standards (particularly as applied to banks)
- Environmental issues (e.g. Greenhouse gas emission, Mineral exploration, waste disposal)
- Supply chain labour standards – reputational risks



# Boardroom structures

- Separation of Chair of Board from Chief Executive (e.g. M&S)
- Independence of non- executive directors
- Senior independent director
- Recruitment and appointment of directors
- Induction and professional development
  - Institute of Directors – **IoD Chartered Director qualification (supported by LAPFF)**

# Directors' remuneration

- Supportive of appropriate rewards for success
- Opposed to 'Fat cat' pay deals rewarding poor performance
- Opposed to excessive rewards which are disproportionate to performance (e.g. Barclays where more was paid out in bonuses than was paid out in dividends to shareholders despite unimpressive performance)
- Promotion of transparency

# Appointment of and role of auditors

- Risk of conflict of interest from other relationships with company
- Ratio of fees for consultancy work and audit fees
- Independence of audit committees

# Accounting standards as applied to banks

- Banks accounts were signed off by auditors as representing a 'true and fair view' of their financial position.

Page 24

Shortly afterwards they needed to be bailed out by public money

- HBOS needed £40.8bn
- RBS needed £51bn

and shareholders suffered major losses.

**Are accounting standards fit for purpose?**

# Approaches to shareholder activism

Page 25

- Leave it to fund managers
- Use a consultant
- Do it yourself (time consuming and ineffective)
- Collaboration (e.g. by membership of the LAPFF)

# Approaches to shareholder activism

Page 26

- Collaboration improves effectiveness immeasurably (Strength in numbers)
- Engagement with companies preferable to confrontation
- Effectiveness of 'screening' (i.e. dis-investing from particular companies) is questionable

# Some engagement results

YOUR M&S





- Following a period of unsuccessful engagement about Sir Stuart Rose's occupation of the roles of both Chairman and Chief Executive, the LAPFF tabled a resolution at the 2009 M&S AGM requiring the company to bring forward the separation these roles.  
The resolution was supported by 37.7% of M&S shareholders.
- Marc Bolland appointed as Chief executive – M&S share price rises 5.5% on news of appointment.
- Marc Bolland subsequently took over as Chief Executive in May 2010 and Robert Swannell took over as chairman in January 2011 and spoke at LAPFF 2011 Conference





- LAPFF co-filed a resolution seeking an independent chair
- The culmination of intensified engagement over the past year
- Meetings held with investors and advisers to build support
- Vote in favour: 30.5%
- Excluding Murdoch votes: 67%

# Financial Reporting Council

## Accuracy of bank accounts

- Ongoing correspondence and meetings with Sir Win Bischoff( former Chairman of Lloyds Banking Group)  
Current Chairman of the Financial Reporting Council.  
LAPFF liaison with an investor coalition including the Universities Superannuation Scheme (USS), Railpen Investments and several leading investment fund managers

# Shell & BP

## Carbon Management

- The boards of **Shell**, and **BP** recommended shareholders support the resolutions filed by a number of LAPFF member funds in conjunction with the Aiming for A coalition of which LAPFF is part. The resolutions addressed 'strategic resilience to 2035 and beyond' focusing on carbon management, strategy and disclosure.
- **For a company to recommend voting in favour of a shareholder resolution is unprecedented in the UK and reflects the positive nature of engagement undertaken by the coalition. At the recent BP and Shell AGMs the resolution received votes of 98% and 99% in support.**

# Benefits of LAPFF membership

## Improved effectiveness

- **72 member funds**
- **Assets of £200 billion**
- **Strength in numbers**
- **Improved information flow/intelligence about Corporate governance/Corporate Social Responsibility issues**
- **More scope for collaboration**
- **Co-ordination of campaigns**

# Benefits of LAPFF membership

## Value for money

Page 33

Research costs spread over 72 Forum member funds  
Annual Subscription £8460 pa (or £8250 pa for those that sign up for three years)

- Saves officer time and cost in researching issues
- Forum for discussion and networking about any related local government pension fund issues.

# Where are we now?

Page 34

- Really beginning to make a difference
- Public support is growing
- Cross party political support
- Constant media interest
- Much more to do

# The future with LGPS Pools ?

- LAPFF to remain a Fund based organisation. Funds are the asset owners.
- Building 3-way relationship with the new LGPS Pools and funds

*LAPFF Chairman has met with Cross Pool Group and Executive has agreed that the Pools be offered the same membership terms as Administering Authorities and that the fee payable for Pools will be the same as paid by Administering Authorities*

*Four Pools have 100% membership of LAPFF (Northern; Wales; LPP; Borders to Coast*

*Another Pool (Central) expected to have 100% shortly – just one more fund to join LAPFF*

*A further Pool (Brunel) has seven out of ten funds as LAPFF members and Pool Chair is a LAPFF Deputy Chair.*

- More collaboration with other institutional investors nationally and internationally - more effectiveness

# Protecting shareholder value

## Acting together - achieving more

Page 36





## PENSIONS COMMITTEE

19 SEPTEMBER 2017

**Subject Heading:**

**IMPLEMENTATION OF THE MARKETS  
IN FINANCIAL INSTRUMENTS  
DERIVATIVE (MiFID 11)**

**CLT Lead:**

**Debbie Middleton**

**Report Author and contact details:**

*Debbie Ford*  
*Pension Fund Manager*  
*01708432569*

**Policy context:**

[Debbie.ford@onesource.co.uk](mailto:Debbie.ford@onesource.co.uk)  
**Continuation of effective investment  
strategy**

**Financial summary:**

**No direct costs for the opting up  
process**

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

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

### SUMMARY

This report outlines the impact of the implementation of the Markets in Financial Instrument Directive 2014/65 ("MiFID II") and in particular the risk to the administering authority of becoming a retail client on 3<sup>rd</sup> January 2018 and recommends that the committee agree that elections for professional client status should be made on behalf of the authority immediately.

### RECOMMENDATIONS

That the Committee:

1. Notes the potential impact on investment strategy of becoming a retail client with effect from 3<sup>rd</sup> January 2018
2. Agrees to the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy.
3. In electing for professional client status the committee acknowledges and agrees to forgo the protections available to retail clients attached as **APPENDIX 1 (Retail client protections)** and that this means no change to the existing arrangements.
4. Agrees to approve delegated responsibility to the Statutory Section 151 Officer Finance (Interim) for the purposes of completing the applications and determining the basis of the application as either full or single service.

<b>REPORT DETAIL</b>
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1. **Background**

- a) Under the current UK regime, local authorities are automatically categorised as ‘per se professional clients’ in respect of non-MiFID scope business and are categorised as ‘per se professional’ clients for MiFID scope business if they satisfy the MiFID Large Undertakings test. Local authorities that do not satisfy the Large Undertakings test may opt up to elective professional client status if they fulfil certain ‘opt up criteria’. London Borough of Havering is currently classified as a ‘per se professional client’.
- b) Following the introduction of the Markets in Financial Instrument Directive 2014/65 (“MiFID II”) from 3 January 2018, firms will no longer be able to categorise a local public authority or a municipality that (in either case) does not manage public debt (“local authority”) as a “per se professional client” or elective eligible counterparty (ECP) for both MiFID and non-MiFID scope business. Instead, all local authorities must be classified as “retail clients” unless they are opted-up by firms to an “elective professional client” status.
- c) Furthermore, the Financial Conduct Authority (FCA) has exercised its discretion to adopt gold-plated opt-up criteria for the purposes of the quantitative opt-up criteria, which local authority clients must satisfy in order for firms to reclassify them as an elective professional client.

**Potential impact of Retail Client Status**

- d) A move to retail client status would mean that all financial services firms like banks, brokers, advisers and fund managers will have to treat local authorities the same way they do non-professional individuals and small businesses. That includes a raft of protections ensuring that investment products are suitable for the customer's needs, and that all the risks and features have been fully explained. This provides a higher standard of protection for the client but it also involves more work and potential cost for both the firm and the client, for the purpose of proving to the regulator that all such requirements have been met.
- e) Such protections would come at the price of local authorities not being able to access the wide range of assets needed to implement an effective, diversified investment strategy. Retail status would significantly restrict the range of financial institutions and instruments available to authorities. Many institutions currently servicing the LGPS are not authorised to deal with retail clients and may not wish to undergo the required changes to resources and permissions in order to do so.
- f) Even if the institution secures the ability to deal with retail clients the range of instruments it can make available to the client will be limited to those defined under FCA rules as 'non-complex' which would exclude many of the asset classes currently included in LGPS fund portfolios. In many cases managers will no longer be able to even discuss ('promote') certain asset classes and vehicles with the authority as a retail client. By not opting up LB Havering would not be able to access the whole range of assets needed to implement an effective, diversified investment strategy.

**Election for professional client status**

- g) As mentioned above MiFID II does allow for retail clients which meet certain conditions to elect to be treated as professional clients (to 'opt up'). There are two tests which must be met by the client when being assessed by the financial institution the quantitative and the qualitative test.
- h) Professional clients do not have the same protections available to them as offered to retail clients as shown in Appendix 1. Election of professional status will have the effect of retaining existing arrangements.
- i) The Local Government Pension Scheme Advisory Board (SAB) and the Local Government Association (LGA) along with the Department of Communities and Local Government (DCLG) and the Investment Association (IA) have successfully lobbied the FCA to make the test better fitted to the unique situation of local authorities.

- j) The new tests recognise the status of LGPS administering authorities as providing a 'pass' for the quantitative test while the qualitative test can now be performed on the authority as a collective and takes into account the advice it receives, rather than an individual. A summary of and extracts from the FCA policy statement which set out these new tests is attached as **APPENDIX 2 (Summary of FCA policy Statement)**.
- k) The election to professional status must be completed with **all affected** financial institutions prior to the change of status on 3<sup>rd</sup> January 2018. Failure to do so by local authorities would result in the financial institution having to take 'appropriate action' which could include a termination of the relationship at a significant financial risk to the authority.
- l) The SAB and the LGA have worked with industry representative bodies including the IA, the British Venture Capital Association (BVCA) and others to develop a standard opt up process with letter and information templates. This process should enable a consistent approach to assessment and prevent authorities from having to submit a variety of information in different formats.
- m) A flowchart of the process is attached as **APPENDIX 3 (Opt up process flowchart)** and the letter and information templates are attached as **APPENDICES 4 (Opt up letter template) and 5 (Opt up information template)**.
- n) Applications can be made in respect of either all of the services offered by the institution (even if not already being accessed) or a particular service only. A local authority may wish to do the latter where the institution offers a wide range of complex instruments which the authority does not currently use and there is no intention to use the institution again once the current relationship has come to an end; for example, if the next procurement is achieved via the LGPS pool. It is recommended that officers determine the most appropriate basis of the application, either via full or single service.
- o) Authorities are not required to renew elections on a regular basis but will be required to review the information provided in the opt up process and notify all institutions of any changes in circumstances which could affect their status. For example, if the membership of the committee changed significantly resulting in a loss of experience or if the relationship with the authority's investment advisor was terminated or changed.

### **LGPS pools**

- p) LGPS pools will be professional investors in their own right so will not need to opt up with the external institutions they use. Local authorities will however need to opt up with their LGPS pool in order to access the full range of services and sub-funds on offer.
- q) In some circumstances, in particular where the pool only offers access to fund structures such as an Authorised Contractual Scheme (ACS) the pool could use 'safe harbour' provisions resulting from local authorities continuing

to be named as professional investors in both the Financial Promotion Order (the “FPO”) or in the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order (the “PCISO”). These provisions would enable the promotion and potential sale of units in fund structures to local authorities as retail investors.

- r) Elections to professional status will be needed for every affected financial institution that the authority uses outside of the pool, both existing and new, together with a continuing review of all elections.
- s) If all new purchases are made via fund structures within the pool then no new elections will be required. Only an ongoing review of the elections made with the pool and any legacy external institutions would be required, the number of which would reduce as assets are liquidated and cash transferred.

### **Next steps**

- t) In order to continue to effectively implement the authority’s investment strategy after 3<sup>rd</sup> January 2018, applications for election to be treated as professional clients should be submitted to all affected financial institutions with whom the authority has an existing or potential relationship with in relation to the investment of the pension fund.
- u) This process should commence as soon as possible in order to ensure completion in good time and avoids the need for appropriate action to be taken by institutions in relation to the authority’s pension fund investments.
- v) The officer named in the recommendations should be granted the necessary delegation to make applications on the authority’s behalf and to determine the nature of the application on either full or single service basis. Whilst there is no hard criteria to assess whether to apply on a full or single service basis, consideration should be given to the future scope of the services that may be provided and apply for the full service, this will alleviate having to submit future opt up requests should any of the existing mandates change for any reason.
- w) Applications to opt up must be sent to ALL investment firms with which the authority wishes to become an elected professional investor. ‘Firms’ for this purpose include all financial institutions with which the authority has a client relationship in relation to the investment of pension fund monies, for example, asset managers, fund providers and consultants.
- x) For the Havering Pension Fund application to opt up to professional clients will be as follows:
  - i. GMO
  - ii. London CIV
  - iii. Royal London
  - iv. SSgA

- v. UBS
  - vi. HG Capital
  - vii. Hymans (Investment Advisor)
- y) Other financial institutes that do not require professional status with whom we have a financial relationship include Hymans (Actuary), State Street Global Services (performance measurers and custodial services)

## **IMPLICATIONS AND RISKS**

### **Financial implications and risks:**

Potential impact of being classified as retail or professional clients is covered within the report under paragraph d) to e).

There is a risk that not opting up to professional clients and not being able to access the wide range of investment products would prohibit continuation of implementing the current investment strategy and impact on the Fund's ability to reduce the deficit position. Not meeting the investment objectives and reducing the deficit could consequently increase costs to the General Fund over the long term.

### **Legal implications and risks:**

The EU Regulation - Markets in Financial Instrument Directive 2014/65 ("MiFID II") will have direct effect within the UK as from 3 January 2018. The content of this Directive is set out in the body of the Report.

Whilst the consequences of failing to apply for elected professional client status cannot be predicted with certainty, there is a significant risk that it will inhibit the Authority in continuing to conduct its pension investment activities as it does at present with adverse financial consequences.  
None arising directly

### **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**

None

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## **Warnings - loss of protections as a Professional Client**

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This document contains, for information purposes only, a summary of the protections that you will lose if you request and agree to be treated as a Professional Client.

### **1. Communicating with clients, including financial promotions**

As a Professional Client the simplicity and frequency in which the firm communicates with you may be different to the way in which they would communicate with a Retail Client. They will ensure however that our communication remains fair, clear and not misleading.

### **2. Information about the firm, its services and remuneration**

The type of information that the firm provides to Retail Clients about itself, its services and its products and how it is remunerated differs to what the firm provides to Professional Clients. In particular,

- (A) The firm is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients; and
- (B) there are particular restrictions on the remuneration structure for staff providing services to Retail Clients which may not be applicable in respect of staff providing services to Professional Clients;
- (C) the information which the firm provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, they are required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and
- (D) when handling orders on behalf of Retail Clients, the firm has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

### **3. Suitability**

In the course of providing advice or in the course of providing discretionary management services, when assessing suitability for Professional Clients, the firm is entitled to assume that in relation to the products, transactions and services for which you have been so classified, that you have the necessary level of experience and knowledge to understand the risks involved in the management of your investments. The firm will assess this information separately for Retail Clients and would be required to provide Retail Clients with a suitability report.

### **4. Appropriateness**

For transactions where the firm does not provide you with investment advice or discretionary management services (such as an execution-only trade), it may be required to assess whether the transaction is appropriate. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment

knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, the firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

**5. Dealing**

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in any execution.

**6. Reporting information to clients**

For transactions where the firm does not provide discretionary management services (such as an execution-only transactions), the timeframe for our providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

**7. Client reporting**

Investment firms that hold a retail client account that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

**8. Financial Ombudsman Service**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

**9. Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Hence, depending on how you are constituted you may not have access to the Financial Services Compensation Scheme.

**10. Exclusion of liability**

The FCA rules restrict the firm's ability to exclude or restrict any duty of liability which the firm owes to Retail Clients more strictly than in respect of Professional Clients.

**11. Trading obligation**

In respect of shares admitted to trading on a regulated market or traded on a trading venue, the firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

**12. Transfer of financial collateral arrangements**

As a Professional Client, the firm may conclude title transfer financial collateral arrangements with you for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

**13. Client money**

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

It should be noted that at all times you will have the right to request a different client categorisation and that you will be responsible for keeping the firm informed of any change that could affect your categorisation as a Professional Client.

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## FCA Markets in Financial Instruments Directive II Implementation – Policy Statement II

The matters relating to the reclassification of local and public authorities as retail are covered in Chapter 8 pages 64 to 74 of the full document <https://www.fca.org.uk/publication/policy/ps17-14.pdf>

**Highlights** (see highlighted sections following for context)

1. Firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions
2. Governance and advice arrangements supporting those individuals can inform and contribute to the firm's assessment
3. Adherence to CIPFA Codes or undertaking other relevant training or qualifications may assist in demonstrating knowledge and expertise as part of the qualitative test
4. Rules will add a fourth criterion that the client is subject to the LGPS Regulation for their pension administration business. Local authorities must continue to meet the size requirement, as well as one of the two previous criteria or the new fourth criterion
5. Compliance with the LGPS Regulations, including taking proper advice, will contribute to the assessment of knowledge and expertise of the local authority client when making decisions
6. Retain the 10 transactions on average per quarter test as one of the four available criteria for enabling a local authority body to opt up.
7. Firms may reasonably assess that a professional treasury manager has worked in the financial sector for at least one year, if their role provides knowledge of the provision of services envisaged
8. Changed the portfolio size threshold to £10m
9. Proposed transitional arrangements that would allow investment firms to re-assess the categorisation of local authority clients between the 3 July 2017 implementation deadline and 3 January 2018 are being taken forward

### Page 67 Our response on the qualitative test

MiFID II requires the qualitative test to be applied to local authorities seeking to opt-up to professional client status, with the test itself unchanged from MiFID. It is important that an investment firm is confident that a client can demonstrate their expertise, experience and knowledge such that the firm has gained a reasonable assurance that the client is capable of making investment decisions and understanding the nature of risks involved in the context of the transactions or services envisioned.

COBS 3.5.4 requires that the qualitative test should be carried out for the person authorised to carry out transactions on behalf of the legal entity. 'Person' in this context may be a single person or a group of persons. We understand that the persons within a local authority who invest on behalf of pension funds are elected officials acting as part of a pensions committee. In those circumstances, firms may take a collective view of the expertise, experience and knowledge of committee members, taking into account any assistance from authority officers and external advisers where it contributes to the expertise, experience and knowledge of those making the decisions. We also understand that typically the person(s) within local authorities who invest the treasury reserves of those authorities are likely to be officers of the authorities, who are delegated authority from elected members and act under an agreed budget and strategy.

Given different governance arrangements, we cannot be prescriptive, but we would stress the importance of firms exercising judgement and ensuring that they understand the arrangements of the local authority and the clear purpose of this test. It remains a test of the individual, or

respectively the individuals who are ultimately making the investment decisions, but governance and advice arrangements supporting those individuals can inform and contribute to the firm's assessment.

We agree that adherence to CIPFA Codes or undertaking other relevant training or qualifications may assist in demonstrating knowledge and expertise as part of the qualitative test.

#### **Page 68 Our response on the quantitative test – approach for Local Government Pension Schemes (LGPS)**

We recognise that local authority pension schemes are established within the framework of the LGPS Regulations and are subject to the oversight of the Pensions Regulator, as well as the broader public policy in MiFID II, such as ensuring that local authority pension schemes receive appropriate investment services, and that they understand the costs and risks involved with such service.

Some expressed concerns about interpreting the quantitative criteria in light of the common governance of local authority pension scheme administration, and recognise that the drafting of our proposed rules was not sufficient to achieve our policy intention of allowing all local authorities administering LGPS pension funds to have the ability to successfully opt up. Therefore, our rules will add a fourth criterion that the client is subject to the LGPS Regulation for their pension administration business. Local authorities must continue to meet the size requirement, as well as one of the two previous criteria or the new fourth criterion. This will assist all local authority pension fund administrators who wish to opt-up to meet the quantitative test, but maintain the need for local authorities to qualitatively demonstrate their sophistication to become professional clients. We agree with views that compliance with the LGPS Regulations, including taking proper advice, will contribute to the assessment of knowledge and expertise of the local authority client when making decisions.

#### **Page 69 Our response on the quantitative test – undertaking 10 transactions on average per quarter**

We accept that some local authorities will not be able to meet this part of the quantitative test (particularly when investing pension funds). However, it continues to be our view that regular and recent experience of carrying out relevant transactions remains a useful proxy for assessing sophistication. We have received no arguments against this view, and so confirm that we will retain this test as one of the four available criteria for enabling a local authority body to opt up.

While theoretically this criterion could be 'gamed' by firms and clients by churning portfolios, we believe it is an unlikely course of action for local authorities who are accountable to the electorate and have specific statutory duties requiring prudent management of their financial affairs. In future, we could scrutinise any firm who appeared to be recommending this course of action to its client and question whether the firm was acting in the client's best interest and whether the firm believed that an artificially higher number of trades contributed to the expertise, experience and knowledge of their client.

#### **Page 70 Our response on the quantitative test – employment in the financial sector for at least 1 year in a professional position**

We accept we could be clearer about who this test is applied to, while ensuring it can be applied flexibly to different governance arrangements. We also recognise that employment in the financial sector is a criterion that can only apply to a natural person.

In response, we have amended the proposed drafting in COBS 3.5.3BR(b)(ii) to note that 'the person authorised to carry out transactions on behalf of the client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the provision of services envisaged'. This should allow local authorities to delegate authority to make investment decisions on their behalf to professional staff with at least one year's experience. We recognise that this redrafted criterion may not be useful for assessing the collective decision making involved in investing local authority pension funds. However, we think this will be less problematic given our new fourth criterion aimed at LGPS administering authorities.

We do not interpret the term 'financial sector' in a limited way for the purposes of COBS 3.5.3BR(2)(b)(ii), and firms may reasonably assess that a professional treasury manager has worked in the financial sector for at least one year, if their role provides knowledge of the provision of services envisaged. This meets the purpose of the test, to ensure the person acting on behalf of a client has the expertise, experience and knowledge necessary in relation to the investment or service being sold and the risks involved.

## **Page 71 Our response on the quantitative test – portfolio size threshold**

We have changed the portfolio size threshold to £10m. This follows further data and case studies provided by local authorities, Department for Communities and Local Government (DCLG) new data, and wider CP responses.

We believe £10m is closer to our policy goal of restricting the ability of the smallest, and by implication the least sophisticated, local authorities (town and parish councils, and the smallest county and district councils) to opt-up, but giving larger ones the ability to do so more readily, (provided they meet the other criteria).

Based on the number of local authorities we estimated were investing in MiFID scope instruments and understanding the quoted portfolio size in the DCLG dataset for 2014/15, in CP16/29 we estimated that 63 additional local authorities would not be able to opt-up to professional client status for the purposes of engaging in MiFID business as a result of our consulted upon policy.

At a £15m portfolio size threshold, this increased to 78 additional local authorities which would not be able to opt-up to professional client status for the purposes of engaging in MiFID business when we used the new 2015/16 DCLG dataset.

Applying the £10m threshold to data over the following years:

2014/15 – 27 local authorities would not be able to opt-up to professional client status; and the estimated one-off costs for investment firms would decrease from £1.7m to £0.8m and on-going costs from £0.8m to £0.3m.

2015/16 – 42 local authorities would not be able to opt-up, and the one-off costs for investment firms would decrease from £2.0m to £1.1m, and on-going costs would reduce from £0.9m to £0.5m.<sup>47</sup>

While a local authority's ability to borrow extra funds to 'game' this requirement may be possible, it is questionable whether local authorities would be able to justify this approach while at the same time making budgets and investment strategies available for public scrutiny.

## **Page 74 Our response on transitional arrangements**

MiFID II gives us very limited discretion with regard to transitional arrangements for applying these rules in respect of local authorities and provides no ability to extend the deadline for compliance with this requirement beyond 3 January 2018. We consulted in CP16/43 on proposed transitional arrangements that would allow investment firms to re-assess the categorisation of local authority clients between the 3 July 2017 implementation deadline and 3 January 2018. These proposals are being taken forward (see Chapter 24). However, firms will not be expected to re-consider categorisation of existing clients other than local authorities, where MiFID II rules are the same as existing MiFID rules transposed at COBS 3.

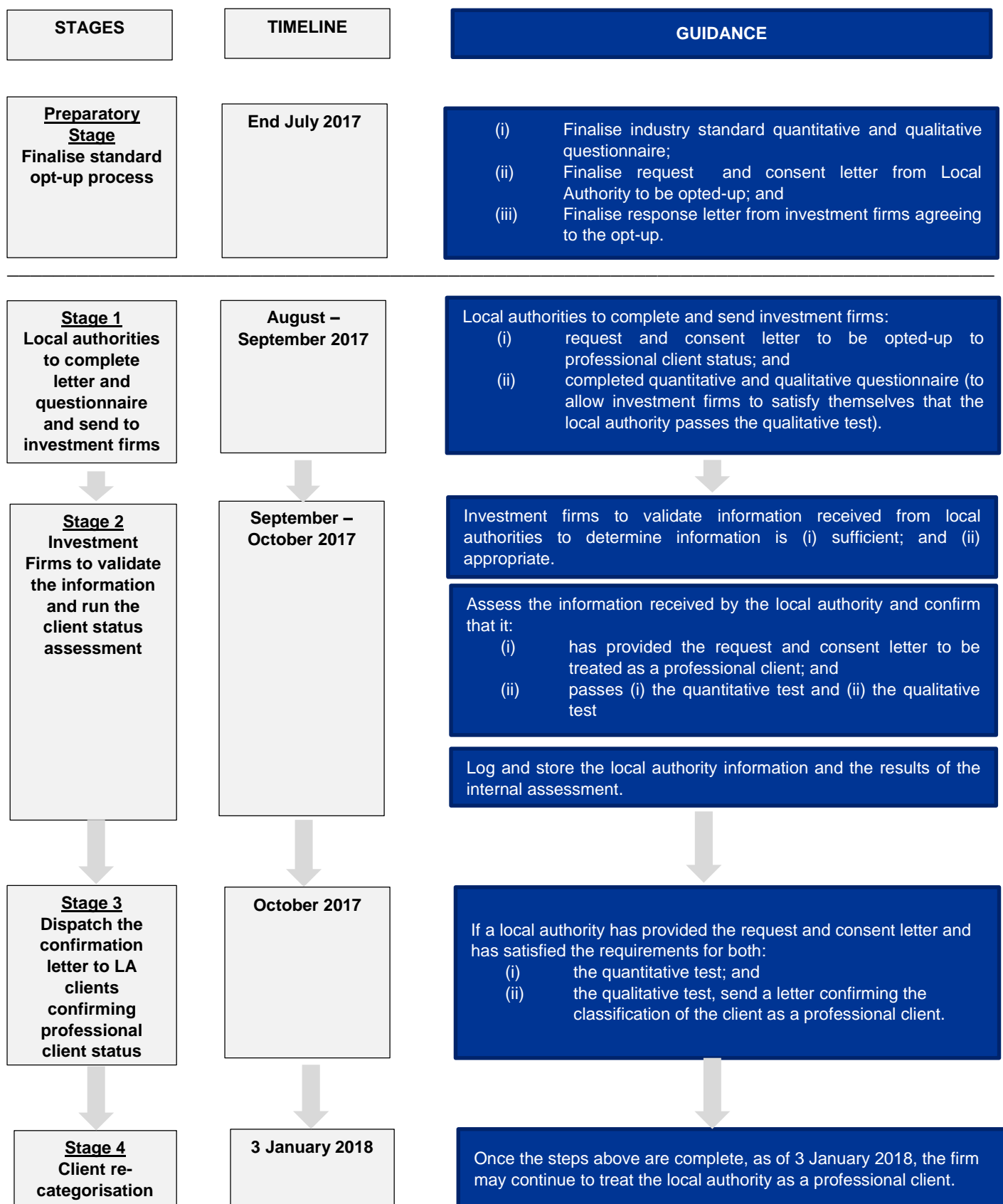
Otherwise, we have made further consequential drafting changes to transitional provisions at COBS TP 1 that were added when MiFID was implemented in 2007, but that are no longer carried across into MiFID II.

More generally, COBS 3.5.8G notes that professional clients have the responsibility to keep investment firms informed about any changes that affect their current categorisation. Further, at COBS 3.5.9R, if the firm becomes aware that the client no longer fulfils the initial conditions that made the client eligible to be an elective professional client, it must take "appropriate action". Neither MiFID II, nor our rules specify what 'appropriate action' is, which will depend on the facts of the case and what would be in the client's best interest. Firms must exercise judgement and consider what would be in the best interests of the client. For example, if a client no longer meets the quantitative test to

opt up to professional client status, a firm may decide it is appropriate to cease providing investment services but to do so in a way that minimises losses to the client.



### UK Local Authority Client Opt-Up Process



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## Letter requesting categorisation as an elective professional client

[ON [AUTHORITY] HEADED PAPER]

[Manager name]

[Manager address]

[Date]

Dear [●]

### **Request to be treated as a professional investor**

I am writing to you ahead of the implementation in the UK of the Markets in Financial Instruments Directive (2014/65/EU) (MiFID II). I have been authorised by NAME OF AUTHORITY (the “Local Authority”) to inform you that, in its capacity as an administering authority of a local government pension scheme, it wishes to be treated as a professional client for the purpose of:

- (a) any and all investment service(s) which it receives from you (the “Services”); and/or
- (b) the promotion to us of, and investment in, any and all fund(s) managed or advised by you (the “Fund Promotions/Investments”).

We understand you are required to categorise all of your clients as either professional clients or retail clients and that you currently categorise the Local Authority as a Professional Client (“Professional Client”). However as of 3 January 2018, under new rules deriving from MiFID II, you will be obliged to re-categorise the Local Authority as a Retail Client (“Retail Client”) as regards receiving Services from you and/or as regards existing fund investments and any future Fund Promotions/Investments, unless you are satisfied you can otherwise treat the Local Authority as an elective Professional Client and opt-up the Local Authority to this particular client status.

I confirm and acknowledge that the Local Authority is aware that, being categorised as a Professional Client, it will not benefit from the protections and investor compensation rights set out in more detail in Schedule 1. In doing so, I confirm that the Local Authority has reviewed and considered the loss of these protections and rights very carefully and has, if it felt so appropriate, taken advice from legal, financial or other advisors.

I wish to inform you that the Local Authority wishes to be categorised as a Professional Client for the purposes of the Services and/or Fund Promotions/Investments, as applicable in its capacity as an administering authority of the Local Government Pension Scheme.

Prior to re-categorising the Local Authority, as a Professional Client, I understand that you will be required to assess the Local Authority on certain quantitative and qualitative grounds. In order to facilitate this assessment, please find attached a completed questionnaire for your review and consideration.

Subject to you being reasonably assured that, as of 3 January 2018, the Local Authority satisfies the necessary quantitative and qualitative grounds and may be categorised as an elective Professional Client, the Local Authority confirms the following:

- (a) its request to be categorised as a Professional Client, in its capacity as an administering authority of the Local Government Pension Scheme, in relation to the Services and/or Fund Promotions/Investments.
- (b) all information provided to you by us (for the purposes of facilitating your assessment of the Local Authority’s request to be categorised as a Professional Client) is true, accurate and complete.

- (c) the Local Authority understands the contents of Schedule 1 which contains summaries of the protections and investor compensation rights, if any, that the Local Authority will lose once it is categorised as a Professional Client. Please note that I can confirm that the Local Authority is fully aware of the consequences of losing such protections and still wishes to apply to be categorised as Professional Client in respect of the Services and/or Fund Promotions/Investments.
- (d) the Local Authority has had sufficient time to consider the implications of categorisation as a Professional Client and has separately taken any legal, financial or other advice that it deems appropriate.
- (e) the Local Authority will inform you of any change that could affect its categorisation as a Professional Client. I also confirm that the Local Authority understands its responsibility to ask you for a higher level of protection if it is unable to properly assess or manage the risks involved with the investments comprised within the portfolio management mandates which you have been appointed to manage.
- (f) I acknowledge the Local Authority understands that you shall be permitted, in your sole discretion and without providing any reason, to re-categorise the client as a Retail client or cease to provide the Services or otherwise carry out any fund promotion to us or allow future investment in funds by us.

If you have any questions regarding this application please contact **[name]** on **[number]** or alternatively e-mail us at **[email address]**.

Yours sincerely,

.....

**[insert name and position]** [Authority]

## Schedule 1

### Warnings - loss of protections for the Local Authority if categorised as a Professional Client

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This Schedule contains, for information purposes only, a summary of the protections lost when requesting and agreeing to be treated as a Professional Client.

### Part 1 – Loss of protections as a Professional Client when receiving Services

#### 1. **Communicating with clients, including financial promotions**

As a Professional Client the simplicity and frequency in which firms communicate with you may be different to the way in which we would communicate with a Retail Client. Firms will ensure however that their communication remains fair, clear and not misleading.

#### 2. **Information about the firm, its services and remuneration**

The type of information that a firm provides to Retail Clients about itself, its services and products and how it is remunerated differs to what it provides to Professional Clients. In particular,

- (A) It is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients;
- (B) the information which it provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, it is required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and
- (C) when handling orders on behalf of Retail Clients, it has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

#### 3. **Suitability**

In the course of providing advice or in the course of providing portfolio management services, when assessing suitability for Professional Clients, a firm is entitled to assume that, in relation to the products, transactions and services for which Professional Clients have been so classified, that they have the necessary level of experience and knowledge to understand the risks involved in the management of their investments. Firms cannot make such an assumption in the case of Retail Clients and must assess this information separately. Firms would be required to provide Retail Clients with a suitability report, where they provide investment advice.

#### 4. **Appropriateness**

For transactions where a firm does not provide investment advice or portfolio management services (such as an execution-only trade), a firm may be required to assess whether the transaction is appropriate for the client in question. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, a firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

## 5. **Dealing**

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in determining best execution.

## 6. **Reporting information to clients**

For transactions where a firm does not provide portfolio management services (such as an execution-only transactions), the timeframe for providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

## 7. **Client reporting**

Firms that manage a retail portfolio that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

## 8. **Financial Ombudsman Service**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

## 9. **Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Your rights (if any) to make a claim under the Financial Services Compensation Scheme in the UK will not be affected by being categorised as a Professional Client.

## 10. **Exclusion of liability**

A firms' ability to exclude or restrict any duty of liability owed to clients is narrower under the FCA rules in the case of Retail Clients than in respect of Professional Clients.

## 11. **Trading obligation**

In respect of shares admitted to trading on a regulated market or traded on a trading venue, a firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

## 12. **Transfer of financial collateral arrangements**

As a Professional Client, a firm may conclude title transfer financial collateral arrangements for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

## 13. **Client money**

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

**Part 2 – Loss of protections for the Local Authority as a potential investor if categorised as a Professional Client for the purposes of Fund Promotions**

**1. Fund promotion**

It is generally not permitted for firms to market alternative investment funds (AIFs) to investors who are Retail Clients (although there are certain limited exceptions to this rule). As a Professional Client, firms will (subject to complying with applicable marketing rules) be generally permitted to market shares or units in AIFs to you, without being subject to this restriction.

**2. Non-mainstream pooled investments**

For the purposes of the UK regulatory regime, AIFs typically fall within the definition of an “unregulated collective investment scheme”. The UK regulator considers unregulated collective investment schemes to be a high-risk investment, which are not generally suitable investments for Retail Clients. As such, firms are not permitted to promote investments in unregulated collective investment schemes to Retail Clients (although there are certain limited exceptions to this rule). As a Professional Client, firms will be generally permitted to promote an investment in unregulated collective investment schemes to you, without being subject to this restriction (and without making any assessment of whether the investment would be suitable or appropriate for you).

**3. Communicating with clients, including financial promotions**

Detailed rules govern generally the form and content of financial promotions which are issued to investors who are Retail Clients. However, these detailed form and content rules apply less rigorously where a promotion is issued only to investors who are Professional Clients. As a Professional Client, firms will be generally permitted to issue promotions to you which do not satisfy the detailed form and content rules for Retail Clients. Firms must ensure however that communications remains fair, clear and not misleading.

**4. Financial Ombudsman**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client

**5. Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Your rights (if any) to make a claim under the Financial Services Compensation Scheme in the UK will not be affected by being categorised as a Professional Client.

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**Elective Professional Client - Status Assessment**

NAME OF LOCAL AUTHORITY: \_\_\_\_\_

CAPACITY: **As administering authority of the local government pension scheme**

NAME OF OFFICIAL COMPLETING QUESTIONNAIRE: \_\_\_\_\_

DATE: \_\_\_\_\_

**QUANTITATIVE TEST**

Answer questions (a) - (d) below. Please ensure that the detail forming the basis of the determination is recorded.

<i>Please answer question (a) with a "Yes" / "No" answer</i>	
<p>(a) Does the size of the local authority's financial instruments portfolio (including both cash deposits and financial instruments) for the purposes of its administration of a local government pension scheme <b>exceed GBP 10,000,000?</b></p> <p>Portfolio size _____ as at date: .....</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>
<p>(b) Is the local authority an 'administering authority' of the Local Government Pension Scheme within the meaning of the version of Schedule 3 of The Local Government Pension Scheme Regulations 2013 or, (in relation to Scotland) within the meaning of the version of Schedule 3 of The Local Government Pension Scheme (Scotland) Regulations 2014 in force at 1 January 2018, and is acting in that capacity?</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No</p>
<p><i>If the answer is "Yes" to question (b) above, it is not necessary to carry out the assessment in question (c) or question (d) and the answer "N/A" can be given in both cases</i></p>	
<p>(c) Has the local authority carried out transactions (in significant size) on the relevant market, at an average frequency of at least <b>10 per quarter</b> for the <b>previous four quarters</b> (i.e. at least 40 investments on the relevant market in the last year)?</p> <p>Transaction total: .....</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A</p>
<p>(d) Does the person authorised to carry out transactions on behalf of the local authority work or has that person worked in the financial sector for at least one year in a professional position, which requires knowledge of the provision of services envisaged?</p> <p>Details of role: .....</p>	<p><input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> N/A</p>

## QUALITATIVE TEST

The “qualitative test” requires a firm to undertake an assessment of the **expertise, experience and knowledge** of the local authority, in order for the firm to be reasonably assured, in light of the nature of the transactions or services envisaged, that the local authority is capable of **making its own investment decisions** and **understanding the risks involved**<sup>1</sup>.

In order for a firm to undertake the assessment required for the purposes of the qualitative test, certain information must be received from local authorities. Local authorities should provide answers to the questions set out below in as comprehensive a fashion as possible. The responses received from the local authority client should be considered and assessed internally by the firm.

### TO BE COMPLETED BY THE LOCAL AUTHORITY CLIENT

#### Section 1: Decision making body for pension investing within your authority

Please complete the following section in relation to the decision making body within the authority.

1.	Please indicate which <u>one</u> of the models below is used for investment decisions in the administering authority.		
a	All decisions delegated to committee or sub-committee.  <i>(Please tick whether you have enclosed or provided a link to the minute giving the officer completing this document the necessary authorisation to do so)</i>	YES NO  Enclosed Link	<input type="checkbox"/> <input type="checkbox"/>  <input type="checkbox"/> <input type="checkbox"/>
b	Decisions delegated to committee or sub- committee with partial delegation to an officer or officers.  <i>(Please tick whether you have enclosed or provided a link to the minute giving the officer completing this application the necessary authorisation to do so)</i>	YES NO  Enclosed Link	<input type="checkbox"/> <input type="checkbox"/>  <input type="checkbox"/> <input type="checkbox"/>
c	All decisions delegated to an officer or officers.	YES NO	<input type="checkbox"/> <input type="checkbox"/>
d	Other	YES NO	<input type="checkbox"/> <input type="checkbox"/>

2.	Please enclose or provide a link to the relevant scheme of delegations, which confirm details of the model elected above.	Enclosed Link	<input type="checkbox"/> <input type="checkbox"/>
----	---	------------------	--

3.	If you have selected model “d - other” above, please use the box below to describe the composition of the decision making model giving details of the parties and their functions.  Details should include information on how the decision making body is constructed, constituted and periodically reviewed.

<sup>1</sup> COBS 3.5.3R (1)

## Section 2: Expertise, experience and knowledge

Please answer the following questions in relation to the members of the committee or sub-committee (not officers, investment advisors or consultants) which makes investment decisions of behalf of the authority.

If you answered (c) to Section 1 Question 1, please move to Section 3.

1	Are members provided with a written brief on joining the committee?  <i>(Please tick whether you have enclosed or provided a link to a copy of an example of the briefing)</i>	YES NO  Enclosed Link	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
2	Are members provided with training on investment matters?  <i>(Please tick whether you have enclosed or provided a link to examples of the training offered to members in the last 12 months)</i>	YES NO  Enclosed Link	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
	Please indicate the total number of hours of training offered and delivered to the committee over the last 12 months.	hours offered  hours delivered	
3	Is the attendance of members at training monitored and recorded?	YES NO	<input type="checkbox"/> <input type="checkbox"/>
4	Please state the average number of hours of training committee members have attended over the last 12 months.	hours	
5	Please state the average number of hours at investment conferences that committee members have attended over the last 12 months.	hours	
6	Are members required to complete a self-assessment with regard to their knowledge of investments?  <i>(Please tick whether you have enclosed or provided a link to details of the self-assessment tool used)</i>	YES NO  Enclosed Link	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
7	Please state the number of years served on the committee (or other such investment committees) on average for each member	years	
8	Please provide any other information which may assist with the assessment of the knowledge, experience and expertise of the committee or sub-committee - (such as the average number of years of independent investment experience by members).		

### Section 3: Investment history and strategy

1	Please complete the following questions in relation to the authority's history and current strategy with regard to investments which are acquired through an investment manager's investment mandate or invested in directly (e.g. funds).
---	--

Asset class or investment vehicle	Number of years held	Currently Held
Fixed interest securities	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Index-linked securities	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Listed equities	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Pooled investment vehicles (PIVs) – authorised funds (e.g. UCITS, NURS, PAIFs)	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Pooled investment vehicles (PIVs) – unauthorised (e.g. investment trusts, close-ended real estate funds, hedge funds)	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Property PIVs	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Private equity funds	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Property	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Exchange traded derivatives (ETDs)	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Over-the-counter derivatives (OTCs)	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Commodities	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Cash deposits	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Commercial paper	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Floating rate notes	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Money market funds	0 <input type="checkbox"/> 1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
Other asset classes or investment vehicles where the authority has experience (Please give details below)		
	1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
	1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
	1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>
	1-3 <input type="checkbox"/> 4-5 <input type="checkbox"/> 5+ <input type="checkbox"/>	YES <input type="checkbox"/> NO <input type="checkbox"/>

2	Please tick whether you have enclosed or provided a link to the most recent version of the authority's Investment Strategy Statement.	Enclosed <input type="checkbox"/> Link <input type="checkbox"/>
3	Has the authority taken the appropriate advice, as required by regulation, in preparing its Investment Strategy Statement?	YES <input type="checkbox"/> NO <input type="checkbox"/>

#### Section 4: Understanding risks

Please answer the following questions in relation to the members of the committee or sub-committee or officers (*not investment advisors or consultants*) making investment decisions of behalf of the authority.

1	Does the authority have a risk framework and/or risk management policy in place in relation to investments?  <i>(Please tick whether you have enclosed or provided a link to a details of the framework/policy)</i>	YES NO  Enclosed Link	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
2	Was external advice taken with regard to the preparation, monitoring and review of the framework/policy?  If yes, please provide the name of the advisor:	YES NO	<input type="checkbox"/> <input type="checkbox"/>
3	Is the risk framework/policy reviewed on a regular basis?  If YES please state the frequency of the review.  <i>(Please tick whether you have enclosed or provided a link to details of the last review)</i>	YES NO   Enclosed Link	<input type="checkbox"/> <input type="checkbox"/>  <input type="checkbox"/> <input type="checkbox"/>
4	Are those directly involved in decision making provided with training on risk management, including focused training on understanding the risks involved with investments?  <i>(Please tick whether you have enclosed or provided a link to examples of the training offered in the last 12 months)</i>	YES NO  Enclosed Link	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
5	Are those directly involved in decision making required to complete a self-assessment with regard to their understanding of risk management?  <i>(Please tick whether you have enclosed or provided a link to details of the self-assessment tool used)</i>	YES NO  Enclosed Link	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>

## Section 5: Support for investment decisions taken by committee/sub-committee of the authority

Please answer the following questions in relation to those officers, advisors or consultants who directly contribute to assisting the committee/sub-committee of the authority take investment decisions or those officers who have delegated decision making powers.

In Section 1 Question 1, if you answered:

- Model a - please complete Question 1 below
- Model b - please complete Questions 1 and 2 below
- Model c - please complete Question 2 below
- Model d - please complete the below questions as appropriate

1.	For each <u>officer providing support</u> to the committee or sub-committee please provide the following information.
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Job title	Relevant qualifications	Years experience in role <sup>2</sup>

2.	For each <u>officer with delegated investment powers</u> please provide the following information (these may be the same officers as above).
----	--

Job title	Limit on asset classes or investment vehicles	Limit on delegation (£m)

3	Does the authority have a written succession plan in place to manage key person risk in relation to the above officers?  (Please tick whether you have enclosed or provided a link to details of the succession plan)	YES NO  Enclosed Link	<input type="checkbox"/> <input type="checkbox"/>  <input type="checkbox"/> <input type="checkbox"/>
---	---	-----------------------------------	--

4.	For each <u>individual investment advisor</u> used by the authority please provide the following information <i>only to be completed where these individual investment advisors are engaged on an independent basis and not acting on behalf of an entity listed in point 5 below</i> .
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Name	Relevant qualifications	Years experience in role <sup>3</sup>

<sup>2</sup> Or similar role which would provide knowledge of the provision of the services envisaged, which may have been carried out at a different organisation.

<sup>3</sup> Or similar role which would provide knowledge of the provision of the services envisaged.

5. For each investment advisory firm used by the authority please provide the following information.

Name of firm	Details of FCA authorisation	Years employed by authority

6. For each individual investment consultant used by the authority please provide the following information (*only to be completed where these consultants are engaged on an independent basis and not acting on behalf of an entity listed in point 7 below*).

Name	Relevant qualifications	Years experience in role <sup>4</sup>

7. For each investment consultancy firm used by the authority please provide the following information.

Name of firm	Details of FCA authorisation	Years employed by authority

8. Please confirm whether the officer, investment advisor firm/individual, investment consultancy firm/individual, is aware of the reliance being placed on it for the purposes of the client categorisation of Local Authorities. YES ☐ NO ☐

<sup>4</sup> Or similar role which would provide knowledge of the provision of the services envisaged.

## Section 6 General questions

1.	<p>In the last three years has the authority been censured for a material breach of Local Government investment regulations in force from time to time or any other related legislation governing investment?</p> <p><i>(If yes please tick whether you have enclosed or provided a link to a details of the breach)</i></p>	<p>YES <input type="checkbox"/></p> <p>NO <input type="checkbox"/></p>	<p><input type="checkbox"/></p> <p><input type="checkbox"/></p>
		<p>Enclosed <input type="checkbox"/></p> <p>Link <input type="checkbox"/></p>	<p><input type="checkbox"/></p> <p><input type="checkbox"/></p>

2.	Please use the box below to provide any further information which may be useful in the support of your application.
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## PENSIONS COMMITTEE

**19 SEPTEMBER 2017**

**Subject Heading:**

**PENSION FUND ACCOUNTS 2016/17**

**CMT Lead:**

**Debbie Middleton**

**Report Author and contact details:**

*Debbie Ford*  
*Pension Fund Accountant*  
*01708432569*  
[Debbie.ford@onesource.co.uk](mailto: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 2017

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

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

### SUMMARY

This report provides Members with an extract of the Council's Statement of Accounts for the year to 31<sup>st</sup> March 2017 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 31<sup>st</sup> March 2017 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 2016/17 which are currently being audited will be presented to the Audit Committee for agreement on the 28th September 2017. 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 Ernst and Young LLP 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 The Accounts are compiled in line with the Chartered Instituted Institute of Public Finance & Accountancy (CIPFA) *"LGPS Funds Accounts 2016/17 example accounts"*.
- 1.4 CIPFA's key content changes since the 2015/16 accounts:
  - Note 11 now includes an analysis of investment management expenses in line with CIPFA's *Accounting for Local Government Pension Scheme Management Expenses* (2016).
  - Notes 12, 14, 16 and 17, together with the net assets statement, have been amended to align with new investment classifications.
  - Note 16A – the classification of investment assets and liabilities into fair value hierarchies (levels 1 to 3) has been adjusted to follow the recommendations contained in *Practical Guidance on Investment Disclosures* (Pensions Research Accounts Group (PRAG)/Investment Association, 2016).

- 1.5 Key movements to note from the 2016/17 accounts are:
- The Net Assets of the Fund have increased to **£671m** for 2016/17 from £573m in 2015/16, a net increase of £98m.
  - The net increase of £98m is compiled of a change in the market value of assets of £95m, investment income of £6m and net additions of cash of £1m and offset by management expenses of (£4m).
  - Mandates held with Baillie Gifford (Global Alpha Fund) and Ruffer (Absolute Return Fund) were both transferred into the London CIV, increasing the assets classified in the accounts under Pooled Investments and decreasing the assets directly classified under Bonds.
- 1.6 A copy of the audited Pension Fund Accounts and the auditors' opinion will be included in the 2016/17 Pension Fund Annual Report. The statutory publication date for the 2016/17 Pension Fund Annual Report is 1 December 2017.
- 1.6 The 2016/17 Pension Fund Annual report is being presented on the Pensions Committee elsewhere on this agenda.
- 1.7 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 Ernst & Young. A verbal update will be provided at the meeting or the ISA260 will be distributed as a late item.

<b>IMPLICATIONS AND RISKS</b>
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**Financial implications and risks:**

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

Regulation 13 of the Accounts and Audit regulations 2015 require the publication of the Statement of Accounts after the conclusion of the audit but in any event no later than the 30<sup>th</sup> September 2017.

In 2017/18 the statutory deadlines are changing – Accounts need to be prepared for audit by the 31 May (currently 30 June) and the audit is to be completed by 31 July (currently 30 September).

In preparation for meeting the change in the above deadlines the Havering Pension Fund Accounts has had two years to trial meeting the earlier deadlines and the 31 May deadline was met for the last two years

**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.

<b>BACKGROUND PAPERS</b>
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Draft statement of Accounts 2016/17

**PENSION FUND**

## Pension Fund Account for the year ended 31 March 2017

2015/16 £000		Notes	2016/17 £000
	<b>Dealings with members, employers and others directly involved in the fund</b>		
41,065	Contributions	7	39,293
1,390	Transfers in from other pension funds	8	1,623
42,455			40,916
(34,973)	Benefits	9	(36,409)
(1,982)	Payments to and on account of leavers	10	(3,856)
(36,955)			(40,265)
<b>5,500</b>	<b>Net additions (withdrawals) from dealings with members</b>		<b>651</b>
(3,663)	Management expenses	11	(3,925)
<b>1,837</b>	<b>Net additions/(withdrawals) including fund management expenses</b>		<b>(3,274)</b>
	<b>Returns on investments</b>		
4,796	Investment income	12	6,480
(25)	Taxes on Income	13	(22)
(8,336)	Profit and losses on disposal of investments and changes in the market value of investments	14a	95,254
<b>(3,565)</b>	<b>Net returns on investments</b>		<b>101,712</b>
<b>(1,728)</b>	<b>Net increase (decrease) in the net assets available for benefits during the year</b>		<b>98,438</b>
574,669	Opening net assets of the Fund at start of year		572,941
<b>572,941</b>	<b>Closing net assets of the Fund at end of year</b>		<b>671,379</b>

## Net Asset Statement for the year ended 31 March 2017

2015/16 £000		Notes	2016/17 £000
562,102	Investment Assets	14	658,621
(1,387)	Investment Liabilities	14	(113)
<b>560,715</b>	<b>Total net investments</b>		<b>658,508</b>
13,707	Current Assets	21	13,136
(1,481)	Current Liabilities	22	(265)
<b>572,941</b>	<b>Net assets of the Fund available to fund benefits at end of the reporting period</b>		<b>671,379</b>

## LONDON BOROUGH OF HAVERING STATEMENT OF ACCOUNTS 2016/17

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 19 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 Deputy Chief Executive Communities and Resources for the months of April to November 2016 and to the Statutory Section 151 officer from November 2016 to March 2017.

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 2016/17 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

**a) General**

The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- The Local government Pension Scheme Regulations 2013 (as amended),
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The Pension Fund is a contributory defined benefits scheme which provides pensions and other benefits for pensionable employees of Havering Council and a range of other scheduled and admitted bodies. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The fund is overseen by the Local Pension Board and the London Borough of Havering Pensions Committee, which is a committee of the Havering Council.

**b) Membership**

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.
- Designated bodies, which are non-community schools, whose employer has changed from the Authority to a Board of Governors. Designated body status allows continued membership in the LGPS for non-teaching staff at non community schools.

During 2016/17 six new employers joined the fund and one ceased.

There are 39 employer organisations with active members within the Havering Pension Fund including the

Authority. The membership profile is detailed below.

31 March 2016		31 March 2017
<b>35</b>	<b>Number of employers with active members</b>	<b>39</b>
	<b>Number of employees in scheme</b>	
4,845	Havering	4,521
1,570	Scheduled bodies	1,596
111	Admitted bodies	100
<b>6,526</b>	<b>Total</b>	<b>6,217</b>
	<b>Number of pensioners and dependants</b>	
5,486	Havering	5,659
320	Scheduled bodies	403
78	Admitted bodies	39
<b>5,884</b>	<b>Total</b>	<b>6,101</b>
	<b>Deferred pensioners</b>	
4,796	Havering	5,129
846	Scheduled bodies	1,005
67	Admitted bodies	62
<b>5,709</b>	<b>Total</b>	<b>6,196</b>
<b>18,119</b>	<b>Total number of members in pension scheme</b>	<b>18,514</b>

**c) Funding**

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the year ended 31 March 2017. Employer contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013. Current employer contribution rates range from 20.2% to 37.9% of pensionable pay. The 2016 valuation has been completed but does not impact the 2016/17 accounts.

**d) Benefits**

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised in the following table:

	Service pre 1 April 2008	Service post 31 March 2008
<b>Pension</b>	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
<b>Lump sum</b>	Automatic lump sum of 3 x pension. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum is paid for each £12 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up



From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49<sup>th</sup>. Accrued pension is adjusted annually in line with the Consumer Prices Index.

There are a range of other benefits provided under the scheme including early retirements, disability pensions and death benefits. For more details please refer to the pension website [www.yourpension.org.uk](http://www.yourpension.org.uk).

## 2 Basis of Preparation

The Statement of Accounts summarises the fund's transactions for the 2016/17 financial year and its position at year end as at 31 March 2017. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17* 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 – revenue recognition

#### (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.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pension strain contributions 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 2013 (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.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

#### (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 a current financial asset.

**iii) Distribution from Pooled Funds**

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

**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 Expenses* (2016).

**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. Associated management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy and charged as expenses to the Fund.

**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 and charged as expenses 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.

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

## **Net Assets Statement**

### **(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 at fair value in accordance with the requirements of the code and IFRS13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016).

### **(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 and includes amounts held by the Fund's external managers.

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.

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 20).

**(m) Additional Voluntary Contributions**

The Havering Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The Fund has appointed Prudential and Standard Life as their AVC providers. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors.

AVC's are not included in the accounts in accordance with section 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 23)

**(n) Contingent assets and contingent liabilities**

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes.

**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 admitted and scheduled bodies in the Fund, as requested, in the intervening years. The methodology used in the annual updates is in line with accepted guidelines.

This estimate is subject to significant variances based on the changes to the underlying assumptions

which are agreed with the actuary and are summarised in Note 19.

These actuarial revaluations are used to set future contribution rates and underpin the fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short term yield/return.

## 5. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the Balance Sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the net asset statement at 31 March 2017 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	Approximate monetary amount (£m)
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, 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"> <li>0.5% decrease in the real discount rate could result in an increase of 9%</li> <li>0.5% increase in salary increase rate could result in an increase of 1%</li> <li>0.5% increase in the pension increase rate could result in an increase of 8%</li> </ul>	93
			12
			80

## 6. Events after the Reporting Date

### *Ending of the UK's Membership of the European Union*

Following the majority vote to end the UK's membership of the European Union (EU) in the EU Referendum held on 23 June 2016, there is a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK. It is too early to estimate the quantum of any impact on the financial statements, and there is likely to be significant ongoing uncertainty for a number of months while the UK renegotiates its relationships with the EU and other nations. For the purposes of these financial statements, the Referendum is considered a non-adjusting event.

## 7. Contributions Receivable

## By category

2015/16 £000		2016/17 £000
	<b>Employees' contributions</b>	
	<b>Normal:</b>	
5,450	Havering	5,325
1,388	Scheduled Bodies	1,425
127	Admitted Bodies	117
	<b>Additional contributions:</b>	
28	Havering	24
25	Scheduled bodies	19
1	Admitted bodies	-
<b>7,019</b>	<b>Total Employees' Contribution</b>	<b>6,910</b>
	<b>Employers' contributions</b>	
	<b>Normal:</b>	
12,681	Havering	10,840
5,412	Scheduled bodies	5,675
440	Admitted bodies	334
	<b>Deficit funding:</b>	
15,117	Havering	*14,157
	<b>Augmentation</b>	
326	Havering	1,130
29	Scheduled bodies	247
41	Admitted bodies	-
<b>34,046</b>	<b>Total Employers' Contributions</b>	<b>32,383</b>
<b>41,065</b>	<b>Total Contributions Receivable</b>	<b>39,293</b>

\*The £14.15m deficit funding reflects additional contributions made by the Authority to the Pension Fund. It consists of £8.15m secondary contributions and £6m in voluntary planned contributions.

## By authority

2015/16 £000		2016/17 £000
33,602	Havering	31,476
6,854	Scheduled bodies	7,366
609	Admitted Bodies	451
<b>41,065</b>	<b>Total Contributions Receivable</b>	<b>39,293</b>

## 8. Transfers in from Other Pension Funds

2015/16 £000		2016/17 £000
1,390	<b>Individual transfers</b>	1,623
<b>1,390</b>	<b>Transfers In from Other Pension Funds</b>	<b>1,623</b>

**9. Benefits Payable****By category**

<b>2015/16 £000</b>		<b>2016/17 £000</b>
	<b>Pensions</b>	
26,757	Havering	27,487
887	Scheduled Bodies	1,091
546	Admitted Bodies	588
<b>28,190</b>	<b>Pension Total</b>	<b>29,166</b>
	<b>Commutation and Lump Sum Retirements</b>	
5,151	Havering	5,968
645	Scheduled Bodies	939
375	Admitted Bodies	164
<b>6,171</b>	<b>Commutation and Lump Sum Retirements Total</b>	<b>7,071</b>
	<b>Lump Sum Death Benefits</b>	
506	Havering	143
106	Scheduled Bodies	29
-	Admitted Bodies	-
<b>612</b>	<b>Lump Sum Death Benefits Total</b>	<b>172</b>
<b>34,973</b>	<b>Total Benefits Payable</b>	<b>36,409</b>

**By authority**

<b>2015/16 £000</b>		<b>2016/17 £000</b>
32,414	Havering	33,598
1,638	Scheduled bodies	2,059
921	Admitted Bodies	752
<b>34,973</b>	<b>Total Benefits Payable</b>	<b>36,409</b>

**10. Payments To and On Account of Leavers**

<b>2015/16 £000</b>		<b>2016/17 £000</b>
76	Refunds to members leaving service	81
1,673	Individual transfers	3,775
233	Group Transfers (Elutec)	-
<b>1,982</b>	<b>Payments to and on Account of Leavers</b>	<b>3,856</b>

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 (See Note 26).

**11. Management Expenses**

<b>2015/16 £000</b>		<b>2016/17 £000</b>
512	Administrative Costs	562
2,796	Investment Management Expenses	3,003
344	Oversight and Governance Costs	352
11	Local Pension Board	8
<b>3,663</b>	<b>Management Expenses</b>	<b>3,925</b>

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 above includes £0.084m (2015/16: Zero) in respect of performance-related fees paid/payable to the fund's investment managers. It also includes £0.144m in respect of transaction costs (2015/16: £0.289m).

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 Note 14).

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

**11a. Investment Management Expenses**

<b>2015/16 £000</b>		<b>2016/17 £000</b>
2,454	Management Fees	2,814
13	Performance measurement fees	11
40	Custody fees	34
289	Transaction costs	144
<b>2,796</b>	<b>Investment Management Expenses</b>	<b>3,003</b>

**12. Investment Income**

<b>2015/16 £000</b>		<b>2016/17 £000</b>
642	Income from equities	2,444
*3,960	Income from Bonds	*3,572
1,145	Pooled Property Investments	1,387
(1,398)	Foreign Exchange Gains/(losses)	(1,070)
67	Interest on Cash Deposits	95
380	Other Income	52
<b>4,796</b>	<b>Investment Income</b>	<b>6,480</b>

\* Income includes Index linked Interest of £0.182m (2015/16 £0.199m)



## LONDON BOROUGH OF HAVERING STATEMENT OF ACCOUNTS 2016/17

## 13. Taxes on Income

2015/16 £000		2016/17 £000
(25)	Withholding Tax	(22)
(25)	<b>Taxes on Income</b>	<b>(22)</b>

## 14. Analysis of Investments

2015/16 £000		2016/17 £000
	<b>Investment Assets</b>	
	<b>Equities</b>	
1,273	UK Quoted	-
19,114	Overseas Quoted	-
<b>20,387</b>		<b>-</b>
	<b>Bonds - Fixed Interest Securities</b>	
11,827	UK Public Sector	11,863
62,191	UK Private (Corporate)	65,845
-	Overseas Public Sector	1,264
<b>74,018</b>		<b>78,972</b>
	<b>Bond - Index-Linked Securities</b>	
52,374	UK Public Sector	35,774
722	UK Private (Corporate)	777
13,094	Overseas Public Sector	389
<b>66,190</b>		<b>36,940</b>
	<b>Derivative Contracts</b>	
65	Forward Currency Contracts	63
<b>65</b>		<b>63</b>
	<b>Pooled Investment</b>	
357,428	UK Unit trusts - Quoted	500,444
169	UK Unit Trusts - Unquoted	152
273	Overseas unit trusts	-
33,449	Pooled property investments	38,641
<b>391,319</b>		<b>539,237</b>
7,188	Cash deposits Managers	2,039
1,616	Amounts receivable for sales	-
1,155	Investment income due	1,009
164	Outstanding Dividend and Recoverable Withholding Tax	361
<b>10,123</b>		<b>3,409</b>
<b>562,102</b>	<b>Total Investment Assets</b>	<b>658,621</b>
	<b>Investment Liabilities</b>	
(295)	Derivatives - Forward Currency Contracts	-
(1,092)	Amount payable for purchases	(113)
<b>(1,387)</b>	<b>Total Investment Liabilities</b>	<b>(113)</b>
<b>560,715</b>	<b>Total Net Investments</b>	<b>658,508</b>

**14a. Reconciliation of movements in investments and derivatives**

	Market Value at 31 March 2016	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 2017
	£000	£000	£000	£000	£000	£000
Equities	20,387	1,409	(648)	119	(21,267)	-
Fixed Interest Securities	74,018	47,204	(48,228)	7,115	(1,137)	78,972
Index-linked Securities	66,190	111,794	(120,909)	9,437	(29,572)	36,940
Pooled Investment Vehicles	391,319	95,275	(166,094)	78,290	140,447	539,237
Derivatives – forward currency contracts	(230)	2,727	(2,727)	293	-	63
Cash Deposits (fund managers)	7,188	-	-	(1)	(5,148)	2,039
	<b>558,872</b>	<b>258,409</b>	<b>(338,606)</b>	<b>95,253</b>	<b>83,323</b>	<b>657,251</b>
Other Investment Balances	1,843	-	-	1	(587)	1,257
	<b>560,715</b>	<b>258,409</b>	<b>(338,606)</b>	<b>95,254</b>	<b>82,736</b>	<b>658,508</b>

	Market Value at 31 March 2015	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 2016
	£000	£000	£000	£000	£000	£000
Equities	24,391	11,210	(13,925)	(1,289)	-	20,387
Fixed Interest Securities	81,916	48,854	(53,785)	(2,967)	-	74,018
Index-linked Securities	63,591	127,502	(126,772)	1,869	-	66,190
Pooled Investment Vehicles	387,542	128,240	(118,209)	(6,254)	-	391,319
Derivatives – forward currency contracts	(529)	244,977	(244,977)	299	-	(230)
Cash Deposits (fund managers)	9,044	-	-	1	(1,857)	7,188
	<b>565,955</b>	<b>560,783</b>	<b>(557,668)</b>	<b>(8,341)</b>	<b>(1,857)</b>	<b>558,872</b>
Other Investment Balances	1,134			5	704	1,843
	<b>567,089</b>	<b>560,783</b>	<b>(557,668)</b>	<b>(8,336)</b>	<b>(1,153)</b>	<b>560,715</b>

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.

Purchases and Sales of derivatives (forward current contracts) are recognised in Note 14a above for contracts settled during the period are reported on a gross basis as gross receipts and payments.

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 £0.144m, including transition costs (2015/16 £0.289m). 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.

The investments analysed by fund managers and the market value of assets under their management as at 31 March 2017 were as follows:

**14b. Investments analysed by Fund Manager**

Value 31 March 2016		Manager	Mandate	Value 31 March 2017	
£000	%			£000	%
121,510	21.67	Royal London	Investment Grade Bonds	127,458	19.36
33,942	6.05	UBS	Property	39,274	5.96
71,006	12.66	Ruffer	Absolute Return	-	-
72,130	12.87	State Street Global Assets	Passive UK/Global Equities	97,009	14.73
6,239	1.11	State Street Global Assets	Sterling Liquidity Fund	-	-
83,794	14.94	Baillie Gifford	Pooled Global Equities	-	-
96,197	17.16	GMO	Multi Asset	102,489	15.56
75,874	13.53	London CIV	Pooled Global Equities	292,267	44.38
23	0.01	Other	Other	11	0.01
<b>560,715</b>	<b>100.00</b>	<b>Total Fund</b>		<b>658,508</b>	<b>100.00</b>

All of the above companies are registered in the United Kingdom

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

Market Value 31 March 2016	% of total fund	Security	Market Value 31 March 2017	% of total fund
£000	%		£000	%
96,197	17	GMO Global Real Return (UCITS) Fund	102,486	16
83,794	15	Baillie Gifford Global Alpha Pension Fund	-	-
75,724	14	London CIV Diversified Growth Fund	292,267	44
72,130	13	SSGA MPF All World Equity Index	97,009	15
33,449	6	UBS Property	39,274	6
-	-	Baillie Gifford Diversified Growth Fund	-	-

**14c. 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.

**15. 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. Derivatives maybe used to gain exposure to an asset more efficiently than holding the underlying asset. 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 2017 is given below:

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Asset Value (Unrealised Gain)	Liability Value (Unrealised Loss)
		000		000	£000	£000
Up to three months	GBP	817	AUD	1,315	17	-
Up to three months	GBP	466	CAD	761	9	-
Up to three months	GBP	1,445	USD	1,763	37	-
<b>Gross open forward currency contracts at 31 March 2017</b>					<b>63</b>	<b>-</b>
<b>Net forward currency contracts at 31 March 2017</b>					<b>63</b>	
<b>Prior year comparative</b>						
<b>Gross open forward currency contracts at 31 March 2016</b>					<b>65</b>	<b>(295)</b>
<b>Net forward currency contracts at 31 March 2016</b>						<b>(230)</b>

**16. Fair Value Basis of Valuation**

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represents the highest and best price available at the reporting date.

Description of asset	Value hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
<b>Pooled quoted investments</b>	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
<b>Quoted bonds</b>	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
<b>Forward foreign exchange derivatives</b>	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
<b>Pooled instruments property funds</b>	Level 3	Valuations carried out by the property funds external valuers, CBRE Ltd	Market value in accordance with the "RICS" Appraisal and Valuation standards	Valuations could be affected by significant differences in rental value and rent growth

**Sensitivity of assets valued at level 3**

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2017

	Assessed valuation range (+/-)	Value at 31 March 2017	Value on increase	Value on decrease
	%	£000	£000	£000
<b>Pooled Investments – Property funds</b>	3.05	38,641	39,820	37,462

**16a. Fair Value Hierarchy**

Asset and Liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

**Level 1**

Assets and Liabilities 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**

Assets and Liabilities 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.

**Level 3**

Assets and Liabilities at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

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

	Quoted Market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2017	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
<b>Financial Assets</b>				
Financial assets at fair value through profit and loss	616,419	152	38,641	655,212
Loans and receivables	16,545	-	-	16,545
<b>Total Financial Assets</b>	<b>632,964</b>	<b>152</b>	<b>38,641</b>	<b>671,757</b>
<b>Financial Liabilities</b>				
Financial liabilities at fair value through profit and loss	-	-	-	-
Financial liabilities at amortised cost	(378)	-	-	(378)
<b>Total Financial Liabilities</b>	<b>(378)</b>	<b>-</b>	<b>-</b>	<b>(378)</b>
<b>Net Financial Assets</b>	<b>632,586</b>	<b>152</b>	<b>38,641</b>	<b>671,379</b>

## LONDON BOROUGH OF HAVERING STATEMENT OF ACCOUNTS 2016/17

	Quoted Market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2016	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
<b>Financial Assets</b>				
Financial assets at fair value through profit and loss	518,361	169	33,449	551,979
Loans and receivables	23,830	-	-	23,830
<b>Total financial Assets</b>	<b>542,191</b>	<b>169</b>	<b>33,449</b>	<b>575,809</b>
<b>Financial Liabilities</b>				
Financial liabilities at fair value through profit and loss	(295)	-	-	(295)
Financial liabilities at amortised cost	(2,573)	-	-	(2,573)
<b>Total Financial Liabilities</b>	<b>(2,868)</b>	<b>-</b>	<b>-</b>	<b>(2,868)</b>
<b>Net Financial Assets</b>	<b>539,323</b>	<b>169</b>	<b>33,449</b>	<b>572,941</b>

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

## 17 Financial Instruments

### (a) Classification of financial instruments

The following table analyses the carrying amounts of financial instruments by category and net asset statement heading. No financial instruments were reclassified during the accounting period.

31 March 2016				31 March 2017		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost		Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£000	£000	£000		£000	£000	£000
			<b>Financial Assets</b>			
20,387	-	-	Equities	-	-	-
74,018	-	-	Bonds -Fixed Interest Securities	78,972	-	-
66,190	-	-	Bonds - Index linked securities	36,940	-	-
65	-	-	Derivative contracts	63	-	-
357,870	-	-	Pooled investment Vehicles	500,596	-	-
33,449	-	-	Property	38,641	-	-
-	7,187	-	Cash	-	2,039	-
-	2,935	-	Other Investment Balances	-	1,370	-
-	13,708	-	Debtors	-	13,136	-
<b>551,979</b>	<b>23,830</b>	<b>-</b>	<b>Financial Assets Total</b>	<b>655,212</b>	<b>16,545</b>	<b>-</b>
			<b>Financial Liabilities</b>			
(295)	-	-	Derivative contracts	-	-	-
-	-	(1,092)	Other Investment Balances	-	-	(113)
-	-	(1,481)	Creditors	-	-	(265)
<b>(295)</b>		<b>(2,573)</b>	<b>Financial Liabilities Total</b>	<b>-</b>	<b>-</b>	<b>(378)</b>
<b>551,684</b>	<b>23,830</b>	<b>(2,573)</b>	<b>Grand total</b>	<b>655,212</b>	<b>16,545</b>	<b>(378)</b>
<b>572,941</b>				<b>671,379</b>		



**(b) Net Gains and Losses on Financial Instruments**

<b>2015/16 £000</b>		<b>2016/17 £000</b>
(8,336)	<b>Financial assets</b>	
-	Fair value through fund account	95,254
-	Loans and receivables	-
	<b>Financial liabilities</b>	
-	Fair value through fund account	-
-	Loans and receivables	-
<b>(8,336)</b>	<b>Total</b>	<b>95,254</b>

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

**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.

Responsibility for the Fund's risk management strategy rests with the pension fund committee. Risk management policies are established to identify and analyse the risks faced by the authorities' pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

**(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 2017/18 reporting period:

Asset Type	31 March 2017 Potential market movements (+/-) %	31 March 2016 Potential market movements (+/-) %
Global Equities inc. UK	9.68	11.30
Fixed Interest Bonds	9.25	8.18
Index Linked Bonds	14.29	10.82
Multi Asset	4.93	4.78
Property	3.05	2.69
Cash	0.01	0.01

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):

<b>Asset Type</b>	<b>Value as at 31 March 2017 £000</b>	<b>Change %</b>	<b>Value on Increase £000</b>	<b>Value on Decrease £000</b>
Global Equities inc.UK	-	-	-	-
Fixed Interest Bonds	78,972	9.25%	86,277	71,667
Index linked Bonds	36,940	14.29%	42,219	31,662
Global Pooled inc.UK	500,596	4.93%	525,276	475,917
Property	38,641	3.05%	39,820	37,462
Cash	2,039	0.01%	2,039	2,039
<b>Total</b>	<b>657,188</b>		<b>695,631</b>	<b>618,747</b>

<b>Asset Type</b>	<b>Value as at 31 March 2016 £000</b>	<b>Change %</b>	<b>Value on Increase £000</b>	<b>Value on Decrease £000</b>
Global Equities inc.UK	20,387	11.30%	22,690	18,083
Fixed Interest Bonds	74,018	8.18%	80,073	67,964
Index linked Bonds	66,190	10.82%	73,352	59,028
Global Pooled inc.UK	357,870	4.78%	374,976	340,764
Property	33,449	2.69%	34,349	32,549
Cash	7,187	0.01%	7,188	7,186
<b>Total</b>	<b>559,101</b>		<b>592,628</b>	<b>525,574</b>

### 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 2017 and 31 March 2016 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

### 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 council recognises that interest rates can vary and can affect both income to the fund and the carrying value of fund assets, both of which affect the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy.

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

Assets exposed to interest rate risk	Value as at 31 March 2017 £000	Potential movement on 1% change in interest rates	Value on increase £000	Value on Decrease £000
Bond Securities	115,912	1,159	117,071	114,753
Cash and Cash Equivalents	2,039	20	2,060	2,019
Cash Balances	12,822	128	12,950	12,694
<b>Total Change in Asset Value</b>	<b>130,773</b>	<b>1,307</b>	<b>132,081</b>	<b>129,466</b>

Assets exposed to interest rate risk	Value as at 31 March 2016 £000	Potential movement on 1% change in interest rates	Value on increase £000	Value on Decrease £000
Bond Securities	140,208	1,402	141,610	138,806
Cash and Cash Equivalents	7,188	72	7,260	7,116
<b>Total Change in Asset Value</b>	<b>147,396</b>	<b>1,474</b>	<b>148,870</b>	<b>145,922</b>

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

### 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.

### 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 9.20% over a rolling 36 month period.

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

A 9.20% 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:

<b>Assets exposed to currency risk</b>	<b>Value as at 31 March 2017 £000</b>	<b>Potential Market movement 9.20%</b>	<b>Value on increase £000</b>	<b>Value on Decrease £000</b>
Overseas Equities	-	-	-	-
Overseas Pooled				
Overseas Index Linked Bonds	389	36	425	353
Overseas Fixed Interests	1,264	116	1,380	1,148
Overseas Cash	5	-	5	5
<b>Total change in assets available to pay benefits</b>	<b>1,658</b>	<b>152</b>	<b>1,810</b>	<b>1,506</b>

<b>Assets exposed to currency risk</b>	<b>Value as at 31 March 2016 £000</b>	<b>Potential Market movement 7.80%</b>	<b>Value on increase £000</b>	<b>Value on Decrease £000</b>
Overseas Equities	19,113	1,491	20,604	17,622
Overseas Pooled	1,901	148	2,049	1,753
Overseas Index Linked Bonds	13,094	1,021	14,115	12,073
Overseas Cash	26	2	28	24
<b>Total change in assets available to pay benefits</b>	<b>34,134</b>	<b>2,662</b>	<b>36,796</b>	<b>31,472</b>

**(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.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2016 the value of liquid assets was £522m, which represented 93% of the total Fund (31

March 2015 £540m, which represented 95% of the total fund assets).

**(d) Refinancing Risk**

The key risk is that the Authority will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The Authority does not have any financial instruments that have a refinancing risk as part of its investment strategies.

**19. Funding Arrangements**

**Actuarial Statement for 2016/17**

This statement has been prepared in accordance with Regulation 57(1) (d) of the Local Government Pension Scheme Regulations 2013. 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) dated March 2017. 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 (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.

**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 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £573 million, were sufficient to meet 67% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £284 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 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 2016 valuation report.

### 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 2016 valuation were as follows:

Financial assumptions	31 March 2016 %
Discount Rate for Period	4.0
Salary increases assumption	2.4
Benefit increase assumption (CPI)	2.1

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has peaked and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.0 years	24.2 years
Future Pensioners*	23.9 years	26.3 years

\* Currently aged 45

Copies of the 2016 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 31 March 2016

Since the last formal valuation, real bonds yields have fallen placing a higher value on the liabilities. The effect of this has been broadly offset by strong asset returns. Both events have roughly cancelled each other out in terms of the impact on the funding position as at 31 March 2017.

The next actuarial valuation will be carried out as at 31 March 2019. The funding Strategy Statement will also be reviewed at that time.

**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. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

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).

<b>31 March 2016</b>	<b>Year Ended</b>	<b>31 March 2017</b>
<b>£m</b>		<b>£m</b>
476	Present Value of Promised Retirement Benefits	475
153	Fair Value of Scheme assets (bid Value)	245
363	Net Liability	486
<b>992</b>	<b>Total (£m)</b>	<b>1,206</b>

The promised retirement benefits at 31 March 2017 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, the actuary is satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, the actuary has not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. 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 and are different as at 31 March 2017 and 31 March 2016. It is estimated that the impact of the change in financial assumptions to 31 March 2017 is to increase the actuarial present value by £206m. It is estimated that the change in demographic and longevity assumptions is to decrease the actuarial present value by £17m.

**Financial assumptions**

The actuary's recommended financial assumptions are summarised below:

<b>Year Ended (% p.a)</b>	<b>31 March 2017</b>	<b>31 March 2016</b>
	<b>% p.a.</b>	<b>% p.a.</b>
Pension Increase Rate	2.4	2.1
Salary Increase Rate	2.7	3.1
Discount Rate	2.5	3.4



**Longevity assumption**

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 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:

	<b>Males</b>	<b>Females</b>
Current Pensioners	22.0 years	24.2 years
Future Pensioners	23.9 years	26.3 years

Please note the longevity assumptions have changed since last year 's 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.

**Sensitivity Analysis**

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

<b>Sensitivity to the assumptions for the year ended 31 March 2017</b>	<b>Approximate % increase to liabilities</b>	<b>Approximate monetary amount (£m)</b>
0.5% p.a. increase in the Pension Increase Rate	7	89
0.5% p.a. increase in the Salary Increase Rate	2	22
0.5% p.a. decrease in the Real Discount Rate	9	113

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

**Professional notes**

These notes accompanies the covering report titled 'Actuarial Valuation as at 31 March 2017 for accounting purposes'. 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.

## LONDON BOROUGH OF HAVERING STATEMENT OF ACCOUNTS 2016/17

## 21. Current Assets

2015/16 £000		2016/17 £000
	<b>Debtors:</b>	
-	Pension Grants	-
-	Other Local Authorities	-
288	Contributions due from employers	224
82	Contributions due from employees	71
67	Pension Fund Investment Interest	-
675	Pension Fund Bank Account Balances	-
-	Debtors Refund	18
12,595	Cash deposit with LB Havering	12,823
<b>13,707</b>	<b>Current Assets</b>	<b>13,136</b>

2015/16 £000	Analysis of Debtors	2016/17 £000
-	NHS Bodies	-
-	Other local authorities	-
288	Public corporation and trading funds	224
82	Other entities and individuals	71
<b>370</b>	<b>Total Debtors</b>	<b>295</b>

## 22. Current Liabilities

2015/16 £000		2016/17 £000
	<b>Creditors:</b>	
(883)	Unpaid Benefits	(80)
(251)	Accrued Expenses	(132)
(320)	Income Tax Recoveries	-
(27)	Holding Accounts	(53)
<b>(1,481)</b>		<b>(265)</b>

2015/16 £000	Analysis of Creditors	2016/17 £000
(1,481)	Other entities and individuals	(265)
<b>(1,481)</b>	<b>Total</b>	<b>(265)</b>

**23. Additional Voluntary Contributions**

<b>Market Value 2015/16 £000</b>	<b>AVC Provider</b>	<b>Market Value 2016/17 £000</b>
707	Prudential	801
169	Standard Life	202

Some employees made additional voluntary contributions (AVC's) of £52,413 (2015/16 £54,827) 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 2016/17 were £38,515 (2015/16 £40,807) to the Prudential and £13,898 (2015/16 £14,020) to Standard Life.

**24. Agency Services**

Haverling Council pays discretionary awards to the former employees of Haverling. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the employer bodies. The sums are disclosed below.

<b>2015/16 £000</b>		<b>2016/17 £000</b>
1,452	Payments on behalf of Haverling Council	1,410

**25. 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 Haverling Pension Fund is administering by Haverling Council and consequently there is a strong relationship between the Authority and the Pension Fund. In 2016/17, £0.459m was paid to the Authority for the cost of administering the Fund (2015/16 £0.450m).

The Authority is also the largest employer in the Fund and in 2016/17 contributed £24.997m (2015/16 £27.798m) to the Pension Fund in respect of employer's contributions.

Part of the Pension Fund internal cash holdings are invested on the money markets by the treasury management operations of Haverling Council, through a service level agreement. As at 31 March 2017 cash holdings totalled £12.8m (2015/16 £12.96m), earning interest over the year of £0.094m (2015/16 £0.067m).

**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 Haverling 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.

#### **Note 25a Key Management Personnel**

Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members allowances detailed in section 3.4 of the Code (which are derived from the requirements of Schedule 1 of The Accounts and Audit Regulations 2015 satisfy the key management personnel disclosure requirements of paragraph 16 of IAS 244. This applies in equal measure to the accounts of the Havering Pension Fund.

The disclosures required by the above legislation can be found in the main accounts of Havering Council.

### **26. Contingent Liabilities and Contractual Commitments**

There are no material outstanding capital commitments (investments) as at 31 March 2017 (2015/16 £0.186m). This relates to an outstanding commitment due on an unquoted private equity fund.

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity part of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment.

Following the Freedom and Choice provisions announced in the 2014 Budget, the Pension Fund has seen some enquiries from members about transferring benefits out of the LGPS. As mentioned in Note 10 there are potential liabilities of £0.7m in respect of individuals transferring out of the pension Fund upon whom the Fund is awaiting final decisions. Information is not available which shows how much of this is attributable to Freedom and Choice provisions.

### **27. Contingent Assets**

Three admitted bodies in the Havering Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds total £4.2m and are drawn down in favour of the Pension Fund. Payment will only be triggered in the event of employer default.

Five admitted bodies, which are subject to pending legal agreements, will hold bonds or guarantees totalling £1.7m.

### **28. Impairment Losses**

There were no material impairment losses for bad and doubtful debts as at 31 March 2017.

## PENSIONS COMMITTEE

19 SEPTEMBER 2017

**Subject Heading:**

**PENSION FUND ANNUAL REPORT-  
YEAR ENDED 31 MARCH 2017**

**CMT Lead:**

**Debbie Middleton**

**Report Author and contact details:**

*Debbie Ford*  
*Pension Fund Accountant*  
*01708432569*

**Policy context:**

[Debbie.ford@onesource.co.uk](mailto:Debbie.ford@onesource.co.uk)  
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**

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

### SUMMARY

This report includes the Pension Fund Annual Report 2016/17 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.

<b>RECOMMENDATIONS</b>
------------------------

1. The committee agree the 2016-2017 Pension Fund Annual Report.
2. The committee agree the Pension Fund Annual Report will be published electronically.
3. That the Chairman and the Statutory Section 151 officer be authorised to conclude and sign so far as necessary, the annual report.

<b>REPORT DETAIL</b>
----------------------

**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 1<sup>st</sup> 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 2016 to 31 March 2017.
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/Pensions Research Accounts Group (PRAG) guidance issued in August 2014.
  7. The National Audit Office 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 17**.
  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 2016/17 pension fund annual report is still subject to final clearance by our auditor's Ernst & Young as part of the overall audit of the Council's accounts. A verbal update will be provided at the meeting on the outcome or progress of the audit and any material changes will be distributed as a late item.

<b>IMPLICATIONS AND RISKS</b>
-------------------------------

**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 planned cost of a separate audit opinion for the 2016/17 pension fund accounts is £21,000, which includes the cost of the Annual Report. This cost will be met from the Pension Fund. Final costs will not be known until the audit is finalised.

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.

<b>BACKGROUND PAPERS</b>
--------------------------

Background Papers List

None





# Haverling

L O N D O N   B O R O U G H

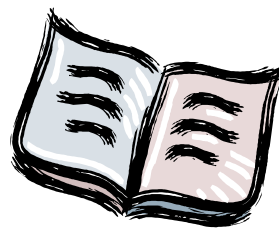
# HAVERING PENSION FUND ANNUAL REPORT MARCH 2017

Pensions Regulator  
Registration Number  
10027841

Financial Services  
Town Hall  
Main Road  
Romford, Essex, RM1 3BB

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Fax: 01708 432162

# Contents Page



## TRUSTEE REPORT

Message from the chairman	3
Introduction	4 - 5

MANAGEMENT AND FINANCIAL PERFORMANCE REPORT	6 - 23
---	--------

INVESTMENT POLICY AND PERFORMANCE REPORT	24 - 31
--	---------

SCHEME ADMINISTRATION REPORT	32 - 33
------------------------------	---------

ACTUARIAL REPORT	34 - 37
------------------	---------

GOVERNANCE COMPLIANCE STATEMENT - overview	38 - 44
--	---------

FUND ACCOUNT AND NET ASSETS STATEMENT (includes Audit Opinion)	45 – 74
---	---------

PENSIONS ADMINISTRATION STRATEGY	75
----------------------------------	----

FUNDING STRATEGY STATEMENT - overview	76
---------------------------------------	----

STATEMENT OF INVESTMENT PRINCIPLES - overview	77
---	----

COMMUNICATION POLICY STATEMENT - overview	78 - 82
---	---------

CONTACT POINTS FOR FURTHER INFORMATION	83
--	----

APPENDICES	84
------------	----

<u>Governance Compliance Statement</u>	<u>85 - 99</u>
<u>Communication Strategy 2013-2015</u>	<u>100 - 107</u>
<u>Funding Strategy Statement (FSS)</u>	<u>108 - 148</u>
<u>Investment Strategy Statement (ISS)</u>	<u>149 - 159</u>
<u>Myners' Compliance Table</u>	<u>160 - 175</u>
<u>Risk Register</u>	<u>176 - 188</u>

# Trustee Report

## Foreword to the Annual Report of the Havering Pension Fund for the year ended 31<sup>st</sup> March 2017

I am pleased to report that the value of the Fund's investments grew by an impressive 17.1% (an increase in net assets of £98m) outperforming its tactical benchmark by 4% in 2016/17 and narrowing underperformance on the strategic benchmark from -4.6% in 2015/16 to -3.7% in 2016/17, with the five year figure now standing at a slender -0.8%. The Pensions Committee ("the Committee") has taken decisive steps to control investment risk in the Fund by reducing reliance on equities, concentrating on defensive and income generating assets compared to the average LGPS fund. This may have resulted in the Fund underperforming against the LGPS average of 21.4% in 2016/17, but we believe the Fund is more resilient to growing headwinds facing financial markets, with equity values at an historic high, and fluctuating cash requirements of a maturing Fund. Further information on the Fund's investment performance can be found on pages 24-31 of this report.

In addition the Actuaries triennial valuation report showed a significant improvement in the funding level from the previous valuation date 31 March 2013 at 61.2% to 67% at 31 March 2016. This outcome enabled the Council and other employers to maintain or reduce employer contribution rates over the next three years commencing April 2017. This was achieved through strong investment performance over the inter-valuation period and I would like to express my thanks to members, officers and adviser in helping to deliver this outcome.

The Committee remains committed to reducing investment fees and to that end our participation in the formative London Collective Investment Vehicle (LCIV) is crucial to bringing that about in line with Central Government policy of requiring LGPS Funds to pool their assets. During 2016/17, investment mandates held with Baillie Gifford (Global Alpha Fund) and Ruffer (Absolute Return Fund) were both transferred into the LCIV and increases the Fund's assets held under management by the LCIV to £292.2m (44% of the Fund). This is expected to generate investment fee savings in the region of £0.150m as at 31 March 2017 (officer calculation). These savings will increase as more of the Fund's assets are moved across to the LCIV once suitable products are available and where they are not it may be necessary to procure managers directly if there is a strong investment case for doing so.

The Committee had to deal with a number of important issues, which are listed on pages 43-44 of the report and its members attended relevant training and development seminars, listed on pages 41-42. An overview of the activities of the Pension Administration team is contained on pages 17-23 of the report.

In response to the actuary's valuation report and new investment regulations introduced in November 2015 the Committee started a review of the investment strategy and a new Investment Strategy Statement was agreed which can be found in the Appendices to this report on pages 149-159. The Committee also commissioned an independent review of the investment strategy to add robustness to the investment strategy and officers in conjunction with the LCIV are currently making progress with its implementation and execution.

We continue to look forward to working closely with the Local Pension Board in its pursuance of its primary objective: assisting this Committee to ensure 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 83.



Councillor John Crowder Chairman – Pensions Committee

## INTRODUCTION

The London Borough of Havering 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 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 was 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 1/49<sup>th</sup> of actual pensionable pay for members of the main section of the scheme and 1/98<sup>th</sup> 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 1<sup>st</sup> 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 was contracted in of the State Second Pension as of the 01/04/2016, previously it was contracted out. This means that any pension paid from the Local Government Pension Scheme must be at least equal to the Guaranteed Minimum Pension (GMP) otherwise provided by State Earning Related Pension Scheme (SERPS) 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 scheme) 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 from the Fund's Actuary and the 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](http://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](http://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 1<sup>st</sup> April 2014, plus a CARE pension based on 1/49<sup>th</sup> or 1/98<sup>th</sup> of each year actual pensionable pay for membership from 1<sup>st</sup> 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 an automatic tax free lump of 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 2016/17 the contribution rates for employers in the Fund range from 17.3% to 28.8% based on the valuation as at 31 March 2013. The most recent valuation has taken place as of 31/03/2016 and new rates were applied from 01/04/2017.

## LGPS 2014 CARE Scheme

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

### • Pension build up

Each year in the scheme the member will build up a pension equal to 1/49<sup>th</sup> 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 1/60<sup>th</sup>, 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](http://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.

Employee contribution rates for 2016/17 are set out in the table below:

Actual Pensionable Pay Band Ranges £	Contribution Rate Main section Gross % rate	Contribution Rate 50/50 Section Gross % rate
0 – 13,600	5.50	2.75
13,601 – 21,200	5.80	2.90
21,201 – 34,400	6.50	3.25
34,401 – 43,500	6.80	3.40
43,501 – 60,700	8.50	4.25
60,701 – 86,000	9.90	4.95
86,001 – 101,200	10.50	5.25
101,201 – 151,800	11.40	5.70
150,801 or more	12.50	6.25

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 authority's section 151 officer and delivered via onesource (shared service arrangement between London Borough of Havering, Newham and Bexley), Investment strategy and performance monitoring of the Fund is a matter for the Committee which obtains and considers advice from the Authority and onesource officers, and as necessary from the Fund's appointed professional adviser, actuary and performance measurers who attend meetings as and when required. Those assets held with the LCIV are now managed by them but report performance to the Committee periodically.

The Pensions and Treasury team within the OneSource Finance service ensures that members of the Committee receive advice on investment strategy and monitoring of the managers. The team also reviews management arrangements and other issues as appropriate, as well as accounting for the activities of the Fund.

The OneSource Exchequer and Transactional Service monitor and manage the pension's employers and employee contributions into the Fund. The team is a contact point for employees who wish to join the scheme, for advice on procedures and for queries and complaints.

In line with the Public Service Pensions Act 2013, a Local Pension Board ("the Board") has been established and its role is as follows:

- Assist the Administering Authority as Scheme Manager; –
  - to secure compliance with the 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 Fund
- Provide the Scheme Manager with such information as it requires to ensure that any member of the Board or person to be appointed to the Board does not have a conflict of interest.

The Board will ensure it effectively and efficiently complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

The Board will also help ensure that the Fund is managed and administered effectively and efficiently and complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

The Board shall meet sufficiently regularly to discharge its duties and responsibilities effectively.

The Board consists of 2 employer representatives and 2 scheme member representatives. A Chair was appointed by the employer and scheme member representatives of the Board from amongst their own number and will serve on a rotating basis with the term of office shared between an employer and a scheme member representative on an equal basis.

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 Committee reflects the political balance of the Council and therefore the members of the Committee are as follows:

Cllr John Crowder (Chair) – Conservative Group  
Cllr David Johnson (Vice Chair) – UKIP  
Cllr Melvin Wallace - Conservative Group  
Cllr Jason Frost – Conservative Group  
Cllr Nic Dodin – 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 (left 31/03/17 – currently vacant)

From May 2016 Cllr Nic Dodin replaced Cllr Ray Morgon - Residents Group and Cllr Jason Frost replaced Cllr Roger Westwood – Conservative Group

From May 2017 Cllr Joshua Chapman replaced Cllr Jason Frost



**Cllr John Crowder**  
Chair

Conservative Group



**Cllr David Johnson**  
Vice Chair

UKIP



**Cllr Melvin Wallace**

Conservative Group



**Cllr Roger Westwood**

Conservative Group  
(May 14 to May 16)



**Cllr Stephanie Nunn**

Residents' Group



**Cllr Clarence Barrett**

East Havering Residents' Group



**Cllr Ray Morgon**

Residents' Group  
(May 15 to May 16)



**Cllr Nic Dodin**

Residents' Group (from  
May 16)



**Cllr Jason Frost**

Conservative Group  
(May 16 to May 17)



**Cllr Joshua Chapman**

Conservative Group  
(from May 17)

The terms of reference for the Committee are:

- To consider and agree the investment strategy and statement of investment principles (SIP) (now called an Investment Strategy Statement) 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 LLP
Auditors	Ernst and Young LLP
Custodians	State Street Global Services
Investment Managers	Royal London Asset Management (Investment Bonds) UBS (Property) Ruffer LLP (Multi Asset) (transferred to London CIV 21 June 2016) State Street (Passive UK/Global Equities) Baillie Gifford (Global Equities) (transferred to London CIV 15 February 2016) Baillie Gifford Diversified Growth Fund (Multi Asset) (transferred to London CIV 11 April 2016) GMO Global Real Return (UCITS) from January 2015 London CIV Baillie Gifford Diversified Growth Fund (from 15 February 2015) London CIV Baillie Gifford Global Alpha (from 11 April 2016) London CIV RF Absolute Return (from 21 June 2016)
Investment Advisers	Hymans Robertson LLP
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	State Street Global Services – Performance Services PLC (formerly WM Company) Pensions & Investment Research Consultants Limited (PIRC)
AVC Providers	Prudential and Standard Life
Chief Executive	Andrew Blake-Herbert
Section 151 Officer	Debbie Middleton (from 7 November 2016)
Pension Fund Accountant	Debbie Ford (onesource)
Pensions Administration Management	Sarah Bryant Director of Exchequer & Transactional Services (onesource)
Local Pension Board -	<b>Employer representatives:</b> Justin Barrett – Redden Court School David Holmes – Havering College of Further and Higher Education



**Scheme Member representatives:**

Mrs Marshajane Thompson (left November 2016)

Mrs Anne Giles (appointed January 2017)

Mr Mark Holder

**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:* Olive Academy (joined 1 September 2016)

**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)

Drapers' Brookside Junior School (Academy from 1 June 2014)

Rise Park Infant School (Academy from 1 September 2014)

Rise Park Junior School (Academy from 1 September 2014)

Pyrgo Priory Primary School (Academy from 1 February 2015)

Dycorts School (Academy from 1 September 2015)

Drapers' Maylands Primary School (Academy from 1 September 2015)

*NEW:* Ravensbourne Academy (Academy from 1 April 2016)

*NEW:* Drapers Brookside Infants (Academy from 1 September 2016)

*NEW:* Concordia Academy (Academy from 1 September 2016)

*NEW:* Benhurst Primary School (Academy from 1 October 2016)

*NEW:* Royal Liberty Academy (Academy from 1 February 2017)

**Admitted Bodies:**

Sports and Leisure Management Ltd – Fitness and Health

Sports and Leisure Management Ltd – Charitable Trust

Family Mosaic (joined 1 November 2012)

Sodexo Catering (joined 1 January 2014 – pending legal agreement) Ceased 29 January 2016

Breyer Group Repairs (joined 1 March 2014 - pending legal agreement)

Breyer Group Voids (joined 1 June 2014 – pending legal agreement)

Caterlink (joined 1 September 2015)

Accent Catering Services (joined 1 September 2015 – 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 potential risks to the Fund, and will take appropriate action to mitigate the impact of these on the fund 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 Committee is encouraged to ensure that expertise is maintained. 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. Elected members are governed by the administering authority's code of conduct and this includes a process for identifying and declaring conflicts of interest.

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

- Governance Compliance Statement,
- The Funding Strategy Statement
- The Statement of Investment Policy (superseded by the ISS in March 2017)
- 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 Robertson) 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 uses the services of an external Investment Adviser (Hymans Robertson) 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, SSAE16 or 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;
- Pay benefits on time as agreed with employers or under statute; and
- 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.

Details on how these risks are mitigated are 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, details of which can be found in an appendix to this report.

The Risk Register has been compiled with reference to the CIPFA publication '*Managing Risk in the LGPS (2012)*', input from the Internal Audit, Insurance and Corporate Risk Manager, a Risk Consultant from Zurich Municipal, the Pension Fund Accountant, the 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 – resulting in insufficient funding to meet liabilities
- Incorrect/inappropriate Investment Strategy – leading to 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 – damaging the Authority's reputation and leading to potential litigations
- Inability to manage the Pension Fund and associated services – with negative impacts upon service provision
- Failure to effectively enrol new employers/members – impacts on cash flow and leads to possible litigations
- Pension Fund payment Fraud – damaging the Authority's reputation and leading to 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 the proper governance of the fund. All risks will be regularly reviewed to ensure that they remain relevant 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.

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 which includes support services for the payment of pensions 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 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.

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

In June 2014 and updated in 2016 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.

	2015/16 Actual £000	2016/17 Estimate £000	2016/17 Actual £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Administration & Processing	429	477	496	529	489	455
Other Fees	6	6	7	7	7	7
Other Costs	77	59	59	63	63	63
<b>TOTAL</b>	<b>512</b>	<b>542</b>	<b>562</b>	<b>599</b>	<b>559</b>	<b>525</b>

Forecasts for 2017/18 onwards reflect the estimated budget adjustments for the restructure of pension's administration.

### 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.

	2015/16 Actual £000	2016/17 Estimate £000	2016/17 Actual £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Fund Manager Fees	2,743	2,700	2,958	2,958	2,958	2,958
Custodian Fees	40	40	34	34	40	40
Performance Measurement services	13	13	11	11	13	13
<b>TOTAL</b>	<b>2,796</b>	<b>2,753</b>	<b>3,003</b>	<b>3,003</b>	<b>3,011</b>	<b>3,011</b>

### 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.

	2015/16 Actual £000	2016/17 Estimate £000	2016/17 Actual £000	2017/18 Estimate £000	2018/19 Estimate £000	2019/20 Estimate £000
Financial Services	142	142	142	142	142	142
Actuarial Fees	35	50	83	50	50	50
Audit Fees	21	21	24	21	21	21
Member Training (inc. LPB)	0	10	5	10	10	10
Advisor Fees	50	50	42	50	50	50
CIV/SAB Levy	76	30	25	103	91	76
Local Pension Board	11	25	3	25	25	25
Pensions Committee	20	20	36	36	36	36
<b>TOTAL</b>	<b>355</b>	<b>348</b>	<b>360</b>	<b>437</b>	<b>425</b>	<b>410</b>

<b>OVERALL MANAGEMENT TOTAL</b>	<b>3,663</b>	<b>3,617</b>	<b>3,925</b>	<b>4,015</b>	<b>4,011</b>	<b>3,996</b>
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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 the 2016/17 figures has been applied for 2017/18 onwards.
- Based on 2016/17 fund and staffing structures.
- Member Training costs 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 and additional contributions from Havering council.

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:

	Bal b/f	2014/15	2015/16	2016/17	Bal c/f
<b>Income</b>					
Predictable		(32.9)	(33.1)	(33.4)	
Unpredictable		(6.0)	(10.4)	(8.8)	
<b>Sub Total</b>		<b>(38.9)</b>	<b>(43.5)</b>	<b>(42.2)</b>	
<b>Benefit Payments</b>					
Predictable		29.4	29.4	31.2	
Unpredictable		7.6	8.8	11.2	
<b>Sub Total</b>		<b>37.0</b>	<b>38.2</b>	<b>42.4</b>	
<b>Total</b>	<b>(5.7)</b>	<b>(1.9)</b>	<b>(5.3)</b>	<b>0.2</b>	<b>(12.7)</b>

The overall cash balance continues to be positive with, as expected, the unpredictable elements causing the most fluctuations to the cash position.

The cash flow policy adopted by the Fund sets out that should the cash level fall below the set de minimis of £3m 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 of £6m, cash will be invested in the most underweight asset allocation within the investment strategy. When the cash flow policy was revised in December 2015 a discretion was introduced that allows the Chief Executive (now the Statutory S151 officer) to exceed the thresholds to meet unforeseeable volatile unpredicted payments (e.g. impact on the Pension Fund for restructures). The excess above the threshold of £6m is currently being considered as part of the implementation of investment strategy review.

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 Committee.

Details about the financial assumptions used by the Actuary can be found within the Valuation Report 2016, 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 regularly reviewed.

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.

<b>Year debt raised</b>	<b>Amount of debt raised £</b>	<b>Debt collected £</b>	<b>Debt outstanding £</b>
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
2015/16	10,384	6,195	3,803
2016/17	22,398	12,585	9,813

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 last exercise to provide the base data to NFI took place in September 2015, all reports were looked at and processed and suspensions put in place where appropriate. The next NFI exercise is due September 2017. The Pension administration team also now have access to 'Tell Us Once' service which is also monitored on a weekly basis so any deaths registered via this method are picked up and actioned. There was also a review of all outstanding death cases which resulted in overpayments being picked up which increased the amount of debt raised in 2016/17

The total value of employer contributions to the fund was £32,383,000 and employee contributions were £6,910,000 making a total of £39,293,000, 100% of these were paid on or before the due date. The monitoring of the payment of contributions identified 1 external payment out of 216 (18 employers X 12 monthly payments) were late, by a new employer. The value of the late contributions was minimal and was the first payment. Interest was not charged for the late payment as a gesture of good will for the new employer, all subsequent payments were made in a timely manner



## ADMINISTRATIVE MANAGEMENT PERFORMANCE

### Pension Services Local Performance Indicators 2016/17

INDICATOR	What is it an indicator of?	Actual 2016/17 %	Target 2016/17 %	Actual 2015/16 %	Actual 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	74.3	95	86.4	80.1
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	82.2	91	65.3	72.8
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.	43.4	60	72.9	20.2
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	28.0	80	14.3	13.0
The percentage of 'Transfers Out' actuals processed within 15 working days	The percentage of transfers out paid to the new pension provider	74.6	80	24.1	54.8
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	67.9	95	83.9	57.3
The percentage of joiners processed within 10 working days of information received	The percentage of joiners' records set up on the Pensions Administration System	89.6	70	89.5	71.5

Targets were set in line with CIPFA and London centre of Excellence, cross councils benchmarking. They were reviewed annually as part of service planning with the Head of Service. 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 performance of the benefit team has been impacted by the resignation of a full time experienced pension officer, pension's team leader and pension's project manager in 2016. The pensions team leader post has been filled, however the pensions officer and project manager costs remains vacant, but we have been supported by an interim manager since September 2016. In order to provide resilience to the service and improve key performance indicators a shared service offering was investigated and has now been awarded to the Local Pensions Partnership (LPP) which is due to take effect from 1 October 2017.

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.

Changes to legislation required Annual Benefit Statements to be sent to active scheme members by 31<sup>st</sup> of August each year. This was extremely challenging for the team as year-end interface files were not working correctly and lack of an experienced resource to look at the issues around the statements. The record maintenance team successfully met the deadline for all active members where the data had been provided by the scheme employer. However the deferred statements were not sent out until October 2016, this was reported to the Pensions Regulators with a robust plan put in place for the 2017 annual benefit statements, which resulted in the deferred members being currently available for viewing on Members self-service for 2017.

Performance levels this year have been impacted by the loss of experienced members of the team and have struggled to recruit to this role permanently, instead hiring an interim manager and awarding the pension contract to LPP. The 2014 Care scheme continues to impact on the targets due to increased protections afforded to members of the scheme along with government legislation changes, such as, decreased limits to annual and lifetime allowance requiring an increase in record monitoring. The Pension Team now interface joiners, which has seen a rise of on time members added to the scheme. Despite transfers being on hold whilst we wait for new factors and system updates we have also seen our on time percentage rise which is a testament to the team whilst being under resourced.

When system upgrades for amendments to regulations are installed, this does not always address the initial requirements therefore manual calculations are still required for some calculations, which is impacting targets. The percentage performance data does not give a true reflection of the overall performance of the team and there has only been one Independent Dispute Resolution Procedure (IDRP) and one general customer complaint.

There have been ad hoc issues with the availability of the Pension Software system and hosting issues during the year. However, due to frequent changes to the guidance and legislation of the 2014 CARE scheme the Pension Software system is still unable to fully comply with the changes. Catch up releases and patch fixes have been rolled out to resolve system errors. Also due to hosting arrangements for the pension database (Altair), via the internet, it is vital the Council's networks are stable, which over the past year have experienced some technical 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 CARE Scheme 2014.
- Employer meetings and workshops on new data requirement 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
- 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 cessation of the Salary Plusage Scheme has also added to the workload

Over the past 5 years trends on 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, which increases from 2014/15 onwards.

Service Item	2012/13 Cases	2013/14 Cases	2014/15 Cases	2015/16 Cases	2016/17 Cases
Retirements processed	273	315	261	279	370
Early retirement estimates processed	660	657	725	827	872
Notification of Deferred Benefits	653	538	243	351	348
Transfers In Actuals processed	65	54	54	35	25
Transfers Out Actuals processed	32	31	31	29	59
Death notification written out	152	158	178	224	193

Service Item (continued)	2012/13 Cases	2013/14 Cases	2014/15 Cases	2015/16 Cases	2016/17 Cases
New LGPS joiners processed	743	1,234	1,173	1,004	1,009
Refunds	15	29	99	148	123
TV Out & Inter Fund Adjustment (IFA ) Quote	63	69	75	98	77
TV In & IFA Quote	80	70	108	254	69
<b>Total Cases per year</b>	<b>2,763</b>	<b>3,155</b>	<b>2,947</b>	<b>3,249</b>	<b>3,145</b>

### 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. An experienced full time member of the benefits team left the authority in June 2015 and this has impacted the performance of the team.

The team currently consists of 9.11 FTE of which 6.11 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 (inc.1 agency)
Specialist Transactional Agent	0.44	0.44
Specialist Transactional Support Agent	1	0
Specialist Transactional Support Assistant	3	1 (1 agency)

The Pension Team is managed by the Specialist Transactional Team Lead. The Pensions Project Manager role is being covered by the interim manager who works outside of the administration team concentrating on specialist projects.

Pensions Administration has not participated in the CIPFA Benchmarking Club this year.

Due to restructuring and resourcing levels we are unable to monitor average cases per member of staff or staff to fund member ratios. Once LPP is providing the service then monthly reports of cases completed and key performance indicators met will be provided to the Havering monitoring officer and the Board.

### Local Government Funding Cuts

All local authorities are under pressure to make significant 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 has increased during 2016/17 as a result of the Government's announcement around its desire for all schools to become Academies. Academies need continual support and monitoring.

Outsourcing of services within the authority employers 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 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 2016/17 there were 6 Academy conversions. As part of the LPP contract an employer risk officer will be allocated to Havering and will take control of all administrative duties relating to new, current and ceasing employers.

### Fund Membership Data

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

	As at 31 March 2017	As at 31 March 2016	As at 31 March 2015	As at 31 March 2014	As at 31 March 2013
Contributors	6,217	6,526	6,484	6,206	5,755
Deferred pensioners	6,196	5,709	5,224	4,874	4,702
Pensioners and Dependants	6,101	5,884	5,779	5,641	5,453
	<b>18,514</b>	<b>18,119</b>	<b>17,487</b>	<b>16,721</b>	<b>15,910</b>

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

	As at 31 March 2017	As at 31 March 2016	As at 31 March 2015	As at 31 March 2014	As at 31 March 2013
Ill Health	6	11	15	13	14
Early Retirements	0	0	0	0	0

The age profile of members within five year bandings for the year ended 31 March 2017 is as follows:

AGE BANDS	ACTIVES	DEFERREDS	PENSIONERS (OWN RIGHT)	DEPENDANT PENSIONS	TOTAL BY AGE BAND
0-4	0	0	0	3	3
5-9	0	0	0	4	4
10-14	0	0	0	7	7
15-19	36	2	0	20	58
20-24	184	81	0	8	273
25-29	317	301	0	0	618
30-34	366	482	0	1	849
35-39	567	523	0	1	1,091
40-44	804	754	3	5	1,566
45-49	1,066	1,172	7	14	2,259
50-54	1,231	1,405	11	15	2,662
55-59	999	1,054	173	36	2,262
60-64	500	390	888	45	1,823
65-69	128	29	1,316	72	1,545
70-74	19	3	1,111	113	1,246
75-79	0	0	685	137	822
80-84	0	0	529	170	699
85-89	0	0	328	149	477
90-94	0	0	133	76	209
95-99	0	0	18	19	37
100-104	0	0	2	2	4
<b>TOTAL</b>	<b>6,217</b>	<b>6,196</b>	<b>5,204</b>	<b>897</b>	<b>18,514</b>

### 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.

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 minimum employer's contribution for the London Borough of Havering employees in 2016/17 was 15.6% of salary plus cash of £8.150m (2015/16 15.6% plus cash of £6.650m). The Authority's annual contribution is reviewed every three years. The valuation based on data as at 31<sup>st</sup> March 2013 set employer contribution rates for 2014/15, 2015/16 and 2016/17. During 2016/17 the Fund received the results of Authority's annual employer contribution rates for the next three years commencing 1 April 2017.

In 2016/17 the contribution rates due from the other employers in the Havering Pension Fund range from 17.3% to 37.9%, 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)	4,521	5,348,070	26,127,345
<b>SCHEDULED BODY:</b>			
Havering College of Further & Higher Education	268	336,151	1,333,220
Havering Sixth Form College	97	106,397	372,244
Hall Mead School	100	66,990	280,838
The Champion School	78	77,756	250,522
The Brittons Academy Trust	73	69,447	298,705
St Edward's Church of England School & Sixth Form	68	66,641	248,841
The Frances Bardsley Academy for Girls	61	64,924	243,402
Emerson Park Academy	58	46,155	261,454
Redden Court School	58	53,742	218,696
Drapers Academy	53	55,352	181,769
Coopers' Company & Coborn School	51	65,754	273,090
The Albany School	47	44,765	185,996
Sacred Heart of Mary Girls' School	46	32,358	156,411
Abbs Cross Academy and Arts College	41	40,210	200,889
Bower Park Academy	38	42,860	170,132
The Chafford School	26	35,590	173,609
Pyrgo Primary	59	32,908	133,753
Ravensbourne Academy	51	38,336	185,822
Oasis Academy Pinewood	35	19,704	69,238
Dycorts	34	30,846	149,185
Royal Liberty Academy	31	5,621	24,262
Rise Park Junior School	30	15,795	63,742
Langtons Junior Academy	29	11,593	53,131
Rise Park Infant School	29	12,382	51,249
Upminster Junior Academy	29	14,481	68,045
Drapers Brookside Junior School	27	15,951	65,925
Drapers Brookside Infants	26	11,322	61,600
Benhurst Primary	25	8,972	59,071

Contributing employers	Active Members	Contributions from Members £	Contributions from Employers £
Upminster Infant School	19	10,287	41,437
Birnham Wood Olive Academy	9	6,571	29,090
Drapers Maylands	7	4,136	14,315
Concordia Academy	2	766	2,719
<b>Scheduled Body Total</b>	<b>1,596</b>	<b>1,444,763</b>	<b>5,922,402</b>
<b>ADMITTED BODIES:</b>			
Sports & Leisure Management – Charitable Trust	47	54,930	144,355
Sports & Leisure Management – Fitness and Health	6	5,794	15,642
Family Mosaic	34	30,170	84,932
Breyer Group Voids	2	6,102	13,926
Breyer Group Repairs	8	18,847	61,463
Caterlink	3	1,269	6,064
Citizens Advice Bureau	0	0	7,200
<b>Admitted Bodies Total</b>	<b>100</b>	<b>117,112</b>	<b>333,582</b>
<b>TOTAL</b>	<b>6,217</b>	<b>6,909,945</b>	<b>32,383,329</b>



# 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 Committee also oversees the Fund's investment arrangements and publishes its policies on a range of matters relating to investments.

During the year the Fund had in place an Investment Strategy, which consists of a document split into two sections – The Statement of Investment Principles produced in accordance with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2005 and the Myners Compliance Statement.

New Local Government Pension Schemes (LGPS) (Management and Investment of Funds) Regulations 2016 which came into force on 1 November 2016 replaced the requirement for a Statement of Investment Principles with an Investment Strategy Statement (ISS). These regulations require an administering authority, after taking proper advice to formulate an ISS which must be in accordance with guidance issued by the Secretary of State and published no later than 1 April 2017. In line with regulations the Committee commenced developing the ISS during January 2017 and was published in March 2017.

Under the old regulation 12 (3) of the Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulations 2009, each administering authority was required to include in its Statement of Investment Principles (SIP) the extent to which the authority's policy complies with guidance given by the secretary of state. Compliance is measured against the six principles set out in the Myners Principles.

**Statement of Investment Principles** - The Statement set out the Authority's policies on a range of matters relating to investments, including the Fund's responsible investment policies, 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 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. This was superseded by the Investment Strategy Statement in March 2017.

**Investment Strategy Statement** - The Statement sets out the London Borough of Havering's policies, in its capacity as Administering Authority, for the investments of the Fund. The first statement produced under the new regulations reflects the decisions and discussions held at the training/briefing sessions and the Special Pensions Committee meeting held on the 23 January 2017.

The authority's statement must include:

- (a) money invested in a wide variety of investments;
- (b) the suitability of particular investments and types of investments;
- (c) risk, including the ways in which risks are to be measured and managed;
- (d) its approach to pooling investments, including the use of collective investment vehicles and shared services;
- (e) how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisations of investments; and
- (f) a policy on the exercise of the rights (including voting rights) attaching to investments.

**Myners** - In line with the old regulations the Authority, must publish 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 should be published together with the SIP. The new regulations have removed the requirement to publish compliance against the six Myners principles but the Committee agreed it was best practice to still publish and explain compliance against these principles. This was published with the new ISS in March 2017.

A copy of the ISS 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 Nov 2015	Target Allocation as per ISS Jan 2017	Actual Asset Allocation March 2016	Actual Asset Allocation March 2017	Actual March 2017 Asset Allocation vs ISS Target Allocation
	%	%	%	%	%
Equities	25.0	30.0	27.2	31.2	1.2
Investment Grade Bonds – Active	17.0	19.0	21.3	19.0	0.0
Property – Active	5.0	6.0	5.9	5.8	-0.2
Absolute Return Multi Asset (All classes) – Active	15.0	15.0	12.4	14.4	-0.6
Multi Asset Strategies	35.0	27.5	30.0	27.8	0.3
Infrastructure	3.0	2.5	0.0	0.0	-2.5
Cash	0.0	0.0	3.2	1.8	1.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>0</b>

In line with the ISS, 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.

During the last quarter of the year the Fund undertook a rebalancing of assets to move the asset allocation more in line with the ISS target.

Significant changes in the year were as follows:

- Pending identification of an infrastructure project cash was invested in the State Street Liquidity fund until the last quarter of the year. The Sterling Liquidity fund was cleared to zero with £5m transferred to the Property portfolio and £1.2m transferred to the London CIV Absolute Return mandate.
- Both the Ruffer Fund and the Baillie Gifford (DGF) transferred to the London CIV during the year.
- Rebalancing saw the Fund disinvest £15m from the Bond manager and invest with the London CIV Absolute Return mandate.

## INVESTMENT PERFORMANCE

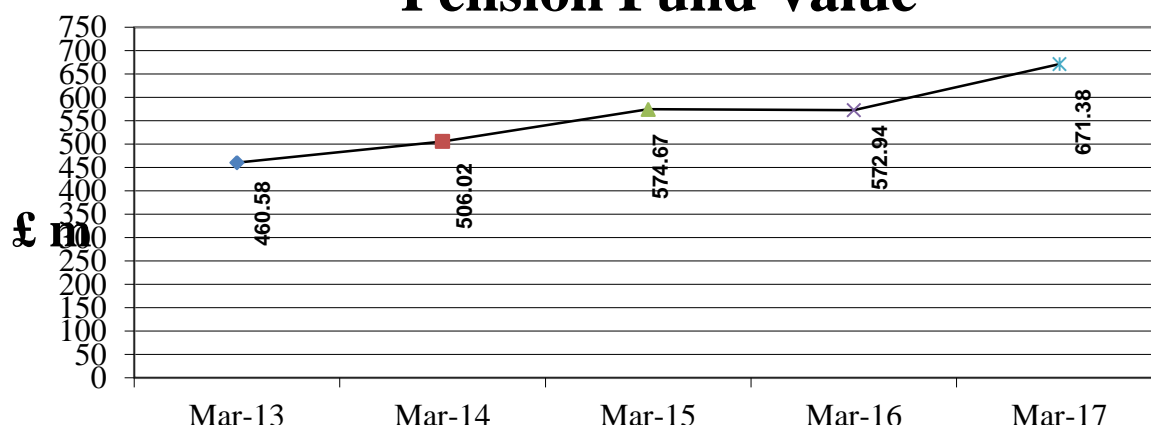
The Fund is invested in shares issued by companies listed on the stock exchange and on foreign exchanges and also in bonds, property funds and in cash.

The Net Assets of the Fund has increased to **£671m** for 2016/17 from £573m in 2015/16, a net increase of **£98m**.

The net increase of **£98m** is compiled of a change in the market value of assets of £95m, investment income of £6m, net additions of cash of £1m and offset by management expenses of (£4m). 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

## Pension Fund Value



The Fund uses the services of State Street Global Services – Performance Services (formerly 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 2016/17, the overall return on the Fund's investments was **17.1%** (2015/16 -1.2%). This represented an outperformance of **4.0%** against the tactical benchmark (2015/16 under performance of -2.8%) and an under performance of **-3.7%** against the strategic benchmark (2015/16 under performance of -4.6%).

The following table shows the overall net of fees performance of the Fund:

	<u>1 year to</u> <u>31.03.16</u> %	<u>1 year to</u> <u>31.03.17</u> %	<u>3 Years to</u> <u>31.03.17</u> %	<u>5 years to</u> <u>31.03.17</u> %
Fund Return	-1.2	17.1	9.4	9.9
<b>Tactical Benchmark</b>	1.7	12.6	8.4	8.5
Performance	-2.8	4.0	0.9	1.3
Fund Return	-1.2	17.1	9.4	9.9
<b>Strategic Benchmark</b>	3.6	21.7	14.9	10.7
Performance	-4.6	-3.7	-4.8	-0.8

*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 Index Linked Gilts + 1.8% 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). This is the expected return in excess of the Fund's liabilities over the longer term.

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.

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:

Asset Class	Target ISS allocation	Investment Manager/ product	Segregated/ pooled	Active/ Passive	Benchmark and Target
UK/Global Equity	15.0%	Baillie Gifford (Global Alpha Fund)	Pooled	Active	MSCI All Countries Index plus 2.5%
	7.5%	State Street Global Asset	Pooled	Passive	FTSE All World Equity Index
	7.5%	State Street Global Asset	Pooled	Passive	FTSE RAFI All World 3000 Index
Multi Asset Strategy	12.5%	Baillie Gifford (Diversified Growth Fund)	Pooled	Active	UK Base Rate plus 3.5%
	15.0%	GMO Global Real return (UCITS)	Pooled	Active	OECD CPI g7 plus 3 - 5%
Absolute Return	15.0%	Ruffer	Segregated	Active	LIBOR+
Property	6.0%	UBS	Pooled	Active	IPD All balanced (property) Fund's median +
Gilt/Investment Bonds	19%	Royal London	Segregated	Active	<ul style="list-style-type: none"> <li>• 50% iBoxx £ non- Gilt over 10 years</li> <li>• 16.7% FTSE Actuaries UK gilt over 15 years</li> <li>• 33.3% FTSE Actuaries Index-linked over 5 years.</li> </ul> Plus 1.25%*
Infrastructure	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

The following table compares each Fund Manager performance against their benchmark and their performance target for the twelve months ending 31 March 2017:

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark
Royal London	16.8	16.3	0.5
UBS	3.3	3.8	-0.4
LCIV Ruffer *	n/a	n/a	n/a
LCIV Baillie Gifford (Global Alpha Fund)*	n/a	n/a	n/a
LCIV Baillie Gifford (DGF) **	10.3	n/a	n/a
SSgA Global Equity	32.9	33.0	-0.1
SSgA Fundamental Index	36.0	36.2	-0.2
GMO (GRRUF)	6.5	1.7	4.8

Source: State Street (former WM Company), Fund Managers and Hymans

- Totals may not sum due to geometric basis of calculation and rounding.
- \*LCIV Ruffer and LCIV Baillie Gifford (Global Alpha) performance is not shown as they were not invested for entire period with LCIV.
- \*\*The objective is to achieve long term capital growth at lower risk than equity markets and not measured against a benchmark.

State Street provides core performance measurement services to State Street clients, including this Fund who subscribe to their custody and/or accounting services.

In January 2017 the Havering pension Fund appointed Pensions & Investment Research Consultants Ltd (PIRC) to provide the universe comparisons against other LGPS funds, a service previously provided by State Street (WM) until they ceased providing this service in March 2016.

The PIRC Local Authority Universe comprised of 60 funds as at the end of March 2017 with a value of £162 billion.

Universe comparisons can be seen in the tables that follow:

#### Universe Fund Performance

Universe data	2016/17	2015/16*	2014/15*	2013/14*	2012/13*	3yrs % pa	5yrs % pa	10yrs % pa
Fund Return	17.4	-1.0	13.2	7.0	14.6	9.6	10.1	5.9
<b>Universe Average</b>	<b>21.4</b>	<b>0.2</b>	<b>12.9</b>	<b>6.4</b>	<b>13.8</b>	<b>11.2</b>	<b>10.7</b>	<b>7.0</b>
Relative Return	-4.0	-1.2	0.3	0.6	0.7	-1.6	-0.6	-1.1
Universe Ranking	83	55	33	11	36	83	68	84

\*State Street (WM) data for the years prior to 2016/17.

## Universe asset allocations as at March 2017

Universe Data	Average Allocation %	Haverling Allocation %	Average Return %	Haverling Return %	Haverling Percentile Ranking
Equities	62	47	28.9	23.6	95
Bonds	15	19	11.3	17.1	8
Alternatives	10	0	16	1.5	95
Property	8	6	6.2	4.3	51
Cash	2	2	no data	0.2	no data
Diversified Growth	3	27	no data	7.2	no data

- Over the last twelve months the average Local Authority pension fund returned 21.4%.
- Strong performance has been driven by the returns from equities which returned almost 30% for the year.
- The outperformance of benchmark indices by alternative assets was the key driver in the unusual statistic that more than three quarters of funds managed to outperform their benchmarks in the latest year.
- In terms of asset allocation, there was no significant change over the year at the macro level with equities comprising the largest allocation within most portfolios.
- There were a number of changes at the lower level, as a result of funds re-aligning their managers to take advantage of the new pool structures.

## Asset Allocation

The Fund Managers and the market value of assets under their management at 31 March 2016 were as follows:

Manager	Mandate	Value £000	Proportion of Total Fund %
Royal London	Active Investment Grade Bonds	127,458	19.37
UBS	Active Property	39,274	5.96
State Street Global Assets	Passive UK/Global Equities	97,009	14.73
London CIV Ruffer	Multi Asset Absolute Return	96,295	14.62
London CIV Baillie Gifford	Pooled Global Equities	112,273	17.05
London CIV Baillie Gifford DGF	Multi Asset	83,549	12.69
GMO	Multi Asset	102,489	15.56
	Other	161	0.02
	<b>Total Fund</b>	<b>658,508</b>	<b>100.00</b>

## Largest 10 Direct Asset Holdings of the Total Fund Value:

Holdings	Market Value at 31 March 2017 £m	Proportion of the total investment of the fund %
Royal London Pooled Bonds	8.83	1.34
UK Treasury Index Linked Bond 1.25% - matures 2055	5.74	0.87
UK Treasury Index Linked Bond 0.5% - matures 2050	5.42	0.83
UK Treasury Index Linked Bond 0.125% - matures 2065	5.39	0.82
UK Treasury Index Linked 0.75% – matures 2034	2.91	0.44

<b><u>Holdings</u></b>	<b><u>Market Value at 31 March 2017</u></b>	<b><u>Proportion of the total investment of the fund</u></b>
	<b>£m</b>	<b>%</b>
UK Treasury Index linked Bond 0.125% – matures 2068	2.89	0.44
UK Treasury Index linked Bond 1.25% – matures 2017	2.85	0.43
UK Treasury Index Linked 0.25% - matures 2052	2.42	0.37
UK Treasury 4% matures 2060	2.32	0.35
UK Treasury Index Linked Bond 2.5% - matures 2020	2.24	0.34
<b>Total</b>	<b>41.01</b>	<b>6.23</b>

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

<b><u>Holdings</u></b>	<b><u>Market Value at 31 March 2017</u></b>	<b><u>Proportion of the total investment of the fund</u></b>
	<b>£m</b>	<b>%</b>
LCIV Baillie Gifford Global Equities	112.27	17.08
GMO – Global Real Return (UCITS) Fund	102.49	15.60
State Street Passive Equities	97.01	14.76
LCIV Ruffer Absolute Return	96.29	14.65
LCIV Baillie Gifford Diversified Growth Fund	83.55	12.71
UBS Pooled Property	38.64	5.88
<b>Total</b>	<b>530.25</b>	<b>80.68</b>

**Funding Strategy Statement (FSS)** - The Authority also has in place a Funding Strategy Statement (FSS) which was reviewed during the 2016 triennial valuation and is reviewed at least every three years as part of this process.

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 10 February 2017.

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.

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. Five admitted bodies, which are subject to pending legal agreements, will hold bonds or guarantees totalling £1.7m.

The interim Pensions Manager, in collaboration with the Fund's Actuary has finalised 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 is still subject to review and will be presented to the Committee for adoption when finalised.

### **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 Committee on a quarterly basis. Managers are invited to present at the 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 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 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 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 APCs (replaces added years and now provides 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
- Participation in the new scheme governance requirements of The Pension Regulations
- Continually reviewing all processes and procedures for smart working.
- 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. The team are supporting the continued expansion of scheme employers, the preparation for the Single Tier Pension which went live in April 2016 and Guaranteed Minimum Pension review, implementing member self-service, and developing the workflow module, all of which significantly impacts upon team resources.

The pension administration team has now implemented member self-service which went live in December 2016 and is proving very popular with the scheme members. The benefits of self service are that it allows members to view their records online and raise any queries in a timely manner; they can also run estimates which takes tasks away from the pension team thus saving valuable time from multiple estimate requests.

The Havering Pension Fund has continued to have a joint pension website with the London Borough of Redbridge and 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 (Onesource), Director of Legal and Governance (Onesource) and the Director of Finance (Onesource). The Team Leader for Pensions Administration sits on the panel in an advisory role.

There was only one case taken to IDRP in 2016/17.

### **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](#).

There was one breach reported during 2016/17 as we did not manage to distribute all of the deferred annual benefit statements by the 31/08/2016.

# Actuarial Report

## London Borough of Havering Pension Fund ("the Fund") Actuarial Statement for 2015/16

This statement has been prepared in accordance with Regulations 57(1) (d) of the Local Government Pension Scheme Regulations 2013. 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

Real bond yields have fallen placing a higher value on liabilities. The effect of this has been offset by the effect of strong asset returns and deficit contributions. Funding levels are therefore likely to have improved marginally and deficits fallen over the 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  
4 May 2016

Hymans Robertson LLP  
20 Waterloo Street  
Glasgow  
G2 6DB

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	31 March 2016
Total Liabilities	£589m	£752m	£792m	£857.3
Market Value of Assets	£361m	£461m	£529m	572.9
Surplus/(deficit)	(£228m)	(£291m)	(£263m)	(284.4)
Funding Level	61.3%	61.2%	66.8%	67%

The improvement in funding position between 2013 and 2016 is mainly due to strong investment performance over the inter-valuation period. The liabilities have also increased due to a reduction in future expected investment returns, although this has been partially offset by lower than expected pay and benefit growth.

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 next triennial valuation will be based on data as at 31 March 16 and published in the autumn of 2016.

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 best practice principles on scheme governance and stewardship.

Changes to the Local Government Pension Scheme (LGPS) Governance Regulations 2015 required Administering Authorities to establish a Local Pension Board (LPB) by no later than 1 April 2015.

The Governance Compliance Statement was amended in November 2016 to reflect changes to membership of the Committee. LPB sets out the following:

- Arrangements for delegation of decisions regarding the Fund
- Structure and the role of members for the Pensions Committee and the LPB
- Membership and Representation of the Pensions Committee and the LPB
- Guidance and monitoring, the support and advice available to the Pensions Committee and the LPB
- Reimbursement for the Pensions Committee and the LPB members
- Training
- Frequency of meetings
- Scope, looking beyond pensions administration and understanding the key risks
- Access and Publication of agenda and minutes of all non-restricted meetings
- Reviewing and Updating of policies
- Compliance to guidance given by Secretary of State

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](#)

In line with guidance published by the then Shadow Scheme Advisory Board the Local Pension Board will publish its own separate Annual Report, similar in nature to this report as published by the Committee.

## Training and Development

The Pensions Regulator Code of Practice which came into force on 1 April 2015 includes a requirement for members of the Pension Committee/LPB to demonstrate that they have an appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the Committee/LPB.

LGPS (Amendment) (Governance) Regulations 2015 states that Administering Authority must have regard to guidance issued by the Secretary of State. Guidance was issued by the Shadow Scheme Advisory Board in January 2015 and 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.

A joint training strategy has been developed and was agreed by the Committee on the 24 November 2015 and presented to the Local Pension Board at its meeting on the 6 January 2016.

The Training Strategy formally sets out the arrangements the London Borough of Havering Pension Fund will take in order to comply with the principles of the CIPFA Code of Practice.

The Pension Committee of the London Borough of Havering Pension Fund fully supports the intentions behind CIPFA's Knowledge and Skills Code of Practice and has agreed to formally adopt its principles.

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.

Pension Committee and LPB members are expected to achieve a minimum level of training credits and the CIPFA's Knowledge and Skills self-assessment questionnaire is used to record credits attained and identify gaps in the knowledge and skills of the members.

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 the Committee.

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.

Associated training and development will be given when required which will be linked to the Pension Fund meeting cyclical coverage for 2016/17.

Training and development took place during 2015/16 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 2016/17

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
20 September 2016	Officers – Pension Fund Accounts briefing covered: Overview of the pension fund accounts	Town Hall – prior to Committee meeting	KSF 2	Officer time	Cllr Crowder (chair) Cllr David Johnson (vice chair) Cllr Barrett Cllr Wallace Cllr Dodin John Giles (UNISON)
28 September 2016	DG Publishing “ Question Time” – Asset Pooling Demystified	Royal Society of Medicine, 1 Wimpole Street	KSF 1	Free	Cllr Nunn
23 January 2017	Hymans - Joint Training with Pensions Board – Investment Strategy Training covered; <ul style="list-style-type: none"><li>• New investment Regulation 2016</li><li>• Overview of ISS/DCLG Guidance</li><li>• What changed between SIP/ISS</li><li>• Asset allocation rebalancing</li><li>• Investment strategy evolution</li><li>• Investment objectives</li><li>• Overview of UK Stewardship code</li><li>• Credit Strategies</li></ul>	Town Hall	KSF 5	£2,100	Cllr Crowder (Chair) Cllr Johnson Cllr Barrett Cllr Nunn John Giles (UNISON)

<b>DATE</b>	<b>TOPIC COVERED</b>	<b>LOCATION</b>	<b>KSF</b>	<b>COST</b>	<b>ATTENDED BY</b>
<b>1 March 2017</b>	LCIV Annual conference including fund manager sessions	Crutched Friars, London	KSF 4	No fee	Cllr Barrett Cllr Johnson Mark Holder Cllr 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 2016/17 and the report coverage and attendance at those meetings are shown in the following table:

DATE	TOPIC	ATTENDED BY
<b>14 June 2016</b>	<ul style="list-style-type: none"><li>• Pension Fund Performance Monitoring for the quarter ending 31 March 2016, received presentations from Multi Asset managers GMO (Global Real Return)</li><li>• Noted the Business Plan/Annual report on the work of the Pensions Committee during 2015/16.</li><li>• Noted Pension Fund Audit Plan 2015/16</li><li>• Agreed the Business Plan/Annual Report on the work of the Pensions Committee 2015/16</li><li>• Noted LGPS: Havering Employing Authority Discretions and Administering Authority Discretions</li><li>• AOB: discussed the response to DCLG on pooling</li></ul>	Cllr John Crowder (chair) Cllr David Johnson (vice chair) Cllr Steven Kelly (sub for Cllr Wallace) Cllr Jason Frost Cllr Nic Dodin Cllr Clarence Barrett Cllr Stephanie Nunn John Giles (UNISON) Heather Foster-Byron (employer representative)
<b>20 September 2016</b>	<ul style="list-style-type: none"><li>• Pension Fund Performance Monitoring for the quarter ending 30 June 2016, received presentations from Royal London (Bonds Manager) and Ruffer (Multi Asset Manager).</li><li>• Noted Pension Fund Accounts for the year ending 31 March 2016.</li><li>• Agreed the Pension Fund Annual Report for the year ending 31 March 2016.</li><li>• Noted the review of fund manager voting and engagement activity</li><li>• Noted results of the GAD section 13 'dry run' report</li></ul>	Cllr John Crowder (chair) Cllr David Johnson (vice chair) Cllr Melvin Wallace Cllr Dilip Patel (sub for Cllr Jason Frost) Cllr John Mylod (sub for Cllr Stephanie Nunn) Cllr Clarence Barrett Cllr Nic Dodin John Giles (UNISON)
<b>22 November 2016</b>	<ul style="list-style-type: none"><li>• Noted the views of officers on the performance of the Fund's Actuary for the period to September 2016.</li><li>• Noted the views of officers on the performance of the Fund's Custodian for the period to September 2016.</li><li>• Noted the views of officers on the performance of the Fund's Investment Advisor for the period to September 2016 and agreed contract extension for the Fund's Investment Advisor contract for one year.</li><li>• Noted the results of the Whistle Blowing Annual review and that no breaches had been reported</li><li>• Considered and agreed changes as necessary to the Governance Compliance Statement.</li></ul>	Cllr John Crowder (chair) Cllr David Johnson (vice chair) Cllr Jason Frost Cllr Clarence Barrett Cllr Stephanie Nunn Cllr Nic Dodin Andy Hampshire (GMB union Rep)
<b>13 December 2016</b>	<ul style="list-style-type: none"><li>• Pension Fund Performance Monitoring for the quarter ending 30 September 2016, received presentations from State Street Global Assets (UK/Global Passive Manager, GMO Global Real Return (Multi Asset Manager) and the Fund's pooling operator London CIV.</li><li>• Considered changed to the investment strategy but deferred decisions for another meeting.</li></ul>	Cllr John Crowder (chair) Cllr David Johnson (vice chair) Cllr Melvin Wallace Cllr Clarence Barrett Cllr Stephanie Nunn Cllr Nic Dodin John Giles (UNISON)

DATE	TOPIC	ATTENDED BY
<b>23 January 2017 (Special meeting)</b>	<ul style="list-style-type: none"> <li>Agreed some changes to the investment strategy and rebalancing proposals</li> </ul>	Cllr John Crowder (chair) Cllr David Johnson (vice chair) Cllr Clarence Barrett Cllr Stephanie Nunn Cllr John Mylod (sub for Cllr Nic Dodin) John Giles (UNISON)
<b>14 March 2017</b>	<ul style="list-style-type: none"> <li>Pension Fund Performance Monitoring for the quarter ending 31 December 2016, received presentation from Royal London (Bonds Manager), UBS (Property Manager).</li> <li>Noted Pension Fund Audit Plan 2016/17</li> <li>Noted the Local Pension Board Annual Report for 2015/16</li> <li>Verbal update on LCIV funding and Governance</li> </ul>	Cllr David Johnson (chair for the meeting) Cllr Robby Misir (sub for Cllr Crowder) Cllr Melvin Wallace Cllr Jason Frost Cllr Ron Ower (Sub for Cllr Clarence Barrett) Cllr Stephanie Nunn Cllr Nic Dodin John Giles (UNISON) Andy Hampshire (GMB)
<b>28 March 2017</b>	<ul style="list-style-type: none"> <li>Agreed Funding Strategy Statement</li> <li>Agreed Investment Strategy Statement</li> <li>Noted the Draft 2016 Actuarial Valuation Report</li> </ul>	Cllr John Crowder (chair) Cllr David Johnson (vice chair) Cllr Melvin Wallace Cllr Dilip Patel (sub for Cllr Jason Frost) Cllr Ray Morgon (sub for Cllr Stephanie Nunn) Cllr Nic Dodin Cllr Clarence Barrett

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 2016/17 and the plan of work for the following year (2017/19). This also includes a Training and Development Plan which is linked to the Pension Fund coverage of meetings.

Full coverage of the 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 2016/17 there were no conflicts of interests declared.

# Fund Account, Net Asset Statement

Pension Fund Account for the year ended 31 March 2017

2015/16 £000		Notes	2016/17 £000
	<b>Dealings with members, employers and others directly involved in the fund</b>		
41,065	Contributions	7	39,293
1,390	Transfers in from other pension funds	8	1,623
42,455			40,916
(34,973)	Benefits	9	(36,409)
(1,982)	Payments to and on account of leavers	10	(3,856)
(36,955)			(40,265)
<b>5,500</b>	<b>Net additions (withdrawals) from dealings with members</b>		<b>651</b>
(3,663)	Management expenses	11	(3,925)
<b>1,837</b>	<b>Net additions/(withdrawals) including fund management expenses</b>		<b>(3,274)</b>
	<b>Returns on investments</b>		
4,796	Investment income	12	6,480
(25)	Taxes on Income	13	(22)
(8,336)	Profit and losses on disposal of investments and changes in the market value of investments	14a	95,254
<b>(3,565)</b>	<b>Net returns on investments</b>		<b>101,712</b>
<b>(1,728)</b>	<b>Net increase (decrease) in the net assets available for benefits during the year</b>		<b>98,438</b>
574,669	Opening net assets of the Fund at start of year		572,941
<b>572,941</b>	<b>Closing net assets of the Fund at end of year</b>		<b>671,379</b>

## Net Asset Statement for the year ended 31 March 2017

2015/16 £000		Notes	2016/17 £000
562,102	Investment Assets	14	658,621
(1,387)	Investment Liabilities	14	(113)
<b>560,715</b>	<b>Total net investments</b>		<b>658,508</b>
13,707	Current Assets	21	13,136
(1,481)	Current Liabilities	22	(265)
<b>572,941</b>	<b>Net assets of the Fund available to fund benefits at end of the reporting period</b>		<b>671,379</b>

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 19 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 Deputy Chief Executive Communities and Resources for the months of April to November 2016 and to the Statutory Section 151 officer from November 2016 to March 2017.

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 2016/17 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and the Local Government Pension Scheme (LGPS) Regulations.

#### a) General

The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- The Local government Pension Scheme Regulations 2013 (as amended),
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The Pension Fund is a contributory defined benefits scheme which provides pensions and other benefits for pensionable employees of Havering Council and a range of other scheduled and admitted bodies. Teachers, police officers and firefighters are not included as they come within other national pension schemes.

The fund is overseen by the Local Pension Board and the London Borough of Havering Pensions Committee, which is a committee of the Havering Council.

#### b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund.
- Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.
- Designated bodies, which are non-community schools, whose employer has changed from the Authority to a Board of Governors. Designated body status allows continued membership in the LGPS for non-teaching staff at non community schools.

During 2016/17 six new employers joined the fund and one ceased.

There are 39 employer organisations with active members within the Havering Pension Fund including the Authority. The membership profile is detailed below.

31 March 2016		31 March 2017
35	<b>Number of employers with active members</b>	39
	<b>Number of employees in scheme</b>	
4,845	Havering	4,521
1,570	Scheduled bodies	1,596
111	Admitted bodies	100
6,526	<b>Total</b>	6,217
	<b>Number of pensioners and dependants</b>	
5,486	Havering	5,659
320	Scheduled bodies	403
78	Admitted bodies	39
5,884	<b>Total</b>	6,101
	<b>Deferred pensioners</b>	
4,796	Havering	5,129
846	Scheduled bodies	1,005
67	Admitted bodies	62
5,709	<b>Total</b>	6,196
18,119	<b>Total number of members in pension scheme</b>	18,514

**c) Funding**

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the year ended 31 March 2017. Employer contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013. Current employer contribution rates range from 20.2% to 37.9% of pensionable pay. The 2016 valuation has been completed but does not impact the 2016/17 accounts.

**d) Benefits**

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised in the following table:

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable salary	Each year worked is worth 1/60 x final pensionable salary
Lump sum	Automatic lump sum of 3 x pension. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum is paid for each £12 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49<sup>th</sup>. Accrued pension is adjusted annually in line with the Consumer Prices Index.

There are a range of other benefits provided under the scheme including early retirements, disability pensions and death benefits. For more details please refer to the pension website [www.yourpension.org.uk](http://www.yourpension.org.uk).

## **2 Basis of Preparation**

The Statement of Accounts summarises the fund's transactions for the 2016/17 financial year and its position at year end as at 31 March 2017. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2016/17* 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 – revenue recognition**

#### **(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.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pension strain contributions 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 2013 (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.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

#### **(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 a current financial asset.

##### **iii) Distribution from Pooled Funds**

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.



**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 Expenses (2016)*.

**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. Associated management, accommodation and other overheads are apportioned to the Fund in accordance with Council policy and charged as expenses to the Fund.

**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 and charged as expenses 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.

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

## **Net Assets Statement**

### **(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 at fair value in accordance with the requirements of the code and IFRS13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures* (PRAG/Investment Association, 2016).

### **(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 and includes amounts held by the Fund's external managers.

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.

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 20).

### **(m) Additional Voluntary Contributions**

The Havering Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The Fund has appointed Prudential and Standard Life as their AVC providers. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors.

AVC's are not included in the accounts in accordance with section 4(1) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 23)

**(n) Contingent assets and contingent liabilities**

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes.

**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 admitted and scheduled bodies in the Fund, as requested, in the intervening years. The methodology used in the annual updates is in line with accepted guidelines.

This estimate is subject to significant variances based on the changes to the underlying assumptions which are agreed with the actuary and are summarised in Note 19.

These actuarial revaluations are used to set future contribution rates and underpin the fund's most significant investment management policies, for example in terms of the balance struck between longer term investment growth and short term yield/return.

**5. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the Balance Sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the net asset statement at 31 March 2017 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	Approximate monetary amount (£m)
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	<p>The effects on the present value of promised retirement benefits of changes in actuarial assumptions can be significant.</p> <p>Changes in assumptions could have the approximate following impacts on the Fund's employer liability as follows:</p> <ul style="list-style-type: none"> <li>• 0.5% decrease in the real discount rate could result in an increase of 9%</li> <li>• 0.5% increase in salary increase rate could result in an increase of 1%</li> <li>• 0.5% increase in the pension increase rate could result in an increase of 8%</li> </ul>	<p>93</p> <p>12</p> <p>80</p>

## 6. Events after the Reporting Date

### *Ending of the UK's Membership of the European Union*

Following the majority vote to end the UK's membership of the European Union (EU) in the EU Referendum held on 23 June 2016, there is a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK. It is too early to estimate the quantum of any impact on the financial statements, and there is likely to be significant ongoing uncertainty for a number of months while the UK renegotiates its relationships with the EU and other nations. For the purposes of these financial statements, the Referendum is considered a non-adjusting event.

## 7. Contributions Receivable

### By category

2015/16 £000		2016/17 £000
	<b>Employees' contributions</b>	
	<b>Normal:</b>	
5,450	Havering	5,325
1,388	Scheduled Bodies	1,425
127	Admitted Bodies	117
	<b>Additional contributions:</b>	
28	Havering	24
25	Scheduled bodies	19
1	Admitted bodies	-
<b>7,019</b>	<b>Total Employees' Contribution</b>	<b>6,910</b>
	<b>Employers' contributions</b>	
	<b>Normal:</b>	
12,681	Havering	10,840
5,412	Scheduled bodies	5,675
440	Admitted bodies	334
	<b>Deficit funding:</b>	
*15,117	Havering	*14,157
	<b>Augmentation</b>	
326	Havering	1,130
29	Scheduled bodies	247
41	Admitted bodies	-
<b>34,046</b>	<b>Total Employers' Contributions</b>	<b>32,383</b>
<b>41,065</b>	<b>Total Contributions Receivable</b>	<b>39,293</b>

\*The £14.15m deficit funding reflects additional contributions made by the Authority to the Pension Fund. It consists of £8.15m past service contribution and £6m in voluntary planned contributions.

### By authority

2015/16 £000		2016/17 £000
33,602	Havering	31,476
6,854	Scheduled bodies	7,366
609	Admitted Bodies	451
<b>41,065</b>	<b>Total Contributions Receivable</b>	<b>39,293</b>

## 8. Transfers in from Other Pension Funds

2015/16 £000		2016/17 £000
1,390	Individual transfers	1,623
<b>1,390</b>	<b>Transfers In from Other Pension Funds</b>	<b>1,623</b>

## 9. Benefits Payable

### By category

2015/16 £000		2016/17 £000
	<b>Pensions</b>	
26,757	Haverling	27,487
887	Scheduled Bodies	1,091
546	Admitted Bodies	588
<b>28,190</b>	<b>Pension Total</b>	<b>29,166</b>
	<b>Commutation and Lump Sum Retirements</b>	
5,151	Haverling	5,968
645	Scheduled Bodies	939
375	Admitted Bodies	164
<b>6,171</b>	<b>Commutation and Lump Sum Retirements Total</b>	<b>7,071</b>
	<b>Lump Sum Death Benefits</b>	
506	Haverling	143
106	Scheduled Bodies	29
-	Admitted Bodies	-
<b>612</b>	<b>Lump Sum Death Benefits Total</b>	<b>172</b>
<b>34,973</b>	<b>Total Benefits Payable</b>	<b>36,409</b>

### By authority

2015/16 £000		2016/17 £000
32,414	Haverling	33,598
1,638	Scheduled bodies	2,059
921	Admitted Bodies	752
<b>34,973</b>	<b>Total Benefits Payable</b>	<b>36,409</b>

## 10. Payments To and On Account of Leavers

2015/16 £000		2016/17 £000
76	Refunds to members leaving service	81
1,673	Individual transfers	3,775
233	Group Transfers (Elutec)	-
<b>1,982</b>	<b>Payments to and on Account of Leavers</b>	<b>3,856</b>

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 (See Note 26).

## 11. Management Expenses

2015/16 £000		2016/17 £000
512	Administrative Costs	562
2,796	Investment Management Expenses	3,003
344	Oversight and Governance Costs	352
11	Local Pension Board	8
<b>3,663</b>	<b>Management Expenses</b>	<b>3,925</b>

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 above includes £0.084m (2015/16: Zero) in respect of performance-related fees paid/payable to the fund's investment managers. It also includes £0.144m in respect of transaction costs (2015/16: £0.289m).

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 Note14).

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

### 11a. Investment Management Expenses

2015/16 £000		2016/17 £000
2,454	Management Fees	2,814
13	Performance measurement fees	11
40	Custody fees	34
289	Transaction costs	144
<b>2,796</b>	<b>Investment Management Expenses</b>	<b>3,003</b>

## 12. Investment Income

2015/16 £000		2016/17 £000
642	Income from equities	2,444
*3,960	Income from Bonds	*3,572
1,145	Pooled Property Investments	1,387
(1,398)	Foreign Exchange Gains/(losses)	(1,070)
67	Interest on Cash Deposits	95
380	Other Income	52
<b>4,796</b>	<b>Investment Income</b>	<b>6,480</b>

\* Income includes Index linked Interest of £0.182m (2015/16 £0.199m)

13. Taxes on Income

2015/16 £000		2016/17 £000
(25)	Withholding Tax	(22)
(25)	<b>Taxes on Income</b>	<b>(22)</b>

14. Analysis of Investments

2015/16 £000		2016/17 £000
	<b>Investment Assets</b>	
	<b>Equities</b>	
1,273	UK Quoted	-
19,114	Overseas Quoted	-
<b>20,387</b>		<b>-</b>
	<b>Bonds - Fixed Interest Securities</b>	
11,827	UK Public Sector	11,863
62,191	UK Private (Corporate)	65,845
-	Overseas Public Sector	1,264
<b>74,018</b>		<b>78,972</b>
	<b>Bond - Index-Linked Securities</b>	
52,374	UK Public Sector	35,774
722	UK Private (Corporate)	777
13,094	Overseas Public Sector	389
<b>66,190</b>		<b>36,940</b>
	<b>Derivative Contracts</b>	
65	Forward Currency Contracts	63
<b>65</b>		<b>63</b>
	<b>Pooled Investment</b>	
357,428	UK Unit trusts - Quoted	500,444
169	UK Unit Trusts - Unquoted	152
273	Overseas unit trusts	-
33,449	Pooled property investments	38,641
<b>391,319</b>		<b>539,237</b>
7,188	Cash deposits Managers	2,039
1,616	Amounts receivable for sales	-
1,155	Investment income due	1,009
164	Outstanding Dividend and Recoverable Withholding Tax	361
<b>10,123</b>		<b>3,409</b>
<b>562,102</b>	<b>Total Investment Assets</b>	<b>658,621</b>
	<b>Investment Liabilities</b>	
(295)	Derivatives - Forward Currency Contracts	-
(1,092)	Amount payable for purchases	(113)
<b>(1,387)</b>	<b>Total Investment Liabilities</b>	<b>(113)</b>
<b>560,715</b>	<b>Total Net Investments</b>	<b>658,508</b>



#### 14a. Reconciliation of movements in investments and derivatives

	Market Value at 31 March 2016	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 2017
	£000	£000	£000	£000	£000	£000
Equities	20,387	1,409	(648)	119	(21,267)	-
Fixed Interest Securities	74,018	47,204	(48,228)	7,115	(1,137)	78,972
Index-linked Securities	66,190	111,794	(120,909)	9,437	(29,572)	36,940
Pooled Investment Vehicles	391,319	95,275	(166,094)	78,290	140,447	539,237
Derivatives – forward currency contracts	(230)	2,727	(2,727)	293	-	63
Cash Deposits (fund managers)	7,188	-	-	(1)	(5,148)	2,039
	<b>558,872</b>	<b>258,409</b>	<b>(338,606)</b>	<b>95,253</b>	<b>83,323</b>	<b>657,251</b>
Other Investment Balances	1,843	-	-	1	(587)	1,257
	<b>560,715</b>	<b>258,409</b>	<b>(338,606)</b>	<b>95,254</b>	<b>82,736</b>	<b>658,508</b>

	Market Value at 31 March 2015	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 2016
	£000	£000	£000	£000	£000	£000
Equities	24,391	11,210	(13,925)	(1,289)		20,387
Fixed Interest Securities	81,916	48,854	(53,785)	(2,967)		74,018
Index-linked Securities	63,591	127,502	(126,772)	1,869		66,190
Pooled Investment Vehicles	387,542	128,240	(118,209)	(6,254)		391,319
Derivatives – forward currency contracts	(529)	244,977	(244,977)	299		(230)
Cash Deposits (fund managers)	9,044			1	(1,857)	7,188
	<b>565,955</b>	<b>560,783</b>	<b>(557,668)</b>	<b>(8,341)</b>	<b>(1,857)</b>	<b>558,872</b>
Other Investment Balances	1,134			5	704	1,843
	<b>567,089</b>	<b>560,783</b>	<b>(557,668)</b>	<b>(8,336)</b>	<b>(1,153)</b>	<b>560,715</b>

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.

Purchases and Sales of derivatives (forward current contracts) are recognised in Note 14a above for contracts settled during the period are reported on a gross basis as gross receipts and payments.

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 £0.144m, including transition costs (2015/16 £0.289m). 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.

The investments analysed by fund managers and the market value of assets under their management as at 31 March 2017 were as follows:

#### 14b. Investments analysed by Fund Manager

Value 31 March 2016		Manager	Mandate	Value 31 March 2017	
£000	%			£000	%
121,510	21.67	Royal London	Investment Grade Bonds	127,458	19.36
33,942	6.05	UBS	Property	39,274	5.96
71,006	12.66	Ruffer	Absolute Return	-	-
72,130	12.87	State Street Global Assets	Passive UK/Global Equities	97,009	14.73
6,239	1.11	State Street Global Assets	Sterling Liquidity Fund	-	-
83,794	14.94	Baillie Gifford	Pooled Global Equities	-	-
96,197	17.16	GMO	Multi Asset	102,489	15.56
75,874	13.53	London CIV	Pooled Global Equities	292,267	44.38
23	0.01	Other		11	0.01
<b>560,715</b>	<b>100.00</b>	<b>Total Fund</b>		<b>658,508</b>	<b>100.00</b>

All of the above companies are registered in the United Kingdom

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

Market Value 31 March 2016 £000	% of total fund	Security	Market Value 31 March 2017 £000	% of total fund %
96,197	17	GMO Global Real Return (UCITS) Fund	102,486	16
83,794	15	Baillie Gifford Global Alpha Pension Fund	-	-
75,724	14	London CIV Diversified Growth Fund	292,267	44
72,130	13	SSGA MPF All World Equity Index	97,009	15
33,449	6	UBS Property	39,274	6
-	-	Baillie Gifford Diversified Growth Fund	-	-

#### 14c. 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.

#### 15. 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. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. 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 2017 is given below:

Settlement	Currency Bought	Local Value 000	Currency Sold	Local Value 000	Asset Value (Unrealised Gain) £000	Liability Value (Unrealised Loss) £000
Up to one month	GBP	817	AUD	1,315	17	-
Up to two months	GBP	466	CAD	761	9	-
Up to three months	GBP	1,445	USD	1,763	37	-
<b>Gross open forward currency contracts at 31 March 2017</b>					<b>63</b>	<b>-</b>
<b>Net forward currency contracts at 31 March 2017</b>					<b>63</b>	
<b>Prior year comparative</b>						
<b>Gross open forward currency contracts at 31 March 2016</b>					<b>65</b>	<b>(295)</b>
<b>Net forward currency contracts at 31 March 2016</b>						<b>(230)</b>

### 16. Fair Value Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represents the highest and best price available at the reporting date.

Description of asset	Value hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
<b>Market quoted investments</b>	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
<b>Quoted bonds</b>	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
<b>Forward foreign exchange derivatives</b>	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
<b>Pooled instruments-property funds</b>	Level 3	Valuations carried out by the property funds external valuers, CBRE Ltd	Market value in accordance with the "RICS" Appraisal and Valuation Standards	Valuations could be affected by significant differences in rental value and rent growth

### Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2017

	Assessed valuation range (+/-) %	Value at 31 March 2017  £000	Value on increase  £000	Value on decrease  £000
Unquoted UK Equity	3.5	38,641	39,820	37,462

#### 16a. Fair Value Hierarchy

Asset and Liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

##### Level 1

Assets and Liabilities 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

Assets and Liabilities 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.

##### Level 3

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

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

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

	Quoted Market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2017	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
<b>Financial Assets</b>				
Financial assets at fair value through profit and loss	616,419	152	38,641	655,212
Loans and receivables	16,545	-	-	16,545
<b>Total Financial Assets</b>	<b>632,964</b>	<b>152</b>	<b>38,641</b>	<b>671,757</b>
<b>Financial Liabilities</b>				
Financial liabilities at fair value through profit and loss	-	-	-	-
Financial liabilities at amortised cost	(378)	-	-	(378)
<b>Total Financial Liabilities</b>				
<b>Net Financial Assets</b>	<b>632,587</b>	<b>152</b>	<b>38,641</b>	<b>671,379</b>

The table below has been restated from the audited accounts to reflect the misclassification of assets held between level 2 and 3

	Quoted Market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2016	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
<b>Financial Assets</b>				
Financial assets at fair value through profit and loss	518,361	169	33,449	551,979
Loans and receivables	23,830	-	-	23,830
<b>Total financial Assets</b>	<b>542,191</b>	<b>169</b>	<b>33,449</b>	<b>575,809</b>
<b>Financial Liabilities</b>				
Financial liabilities at fair value through profit and loss	(295)	-	-	(295)
Financial liabilities at amortised cost	(2,573)	-	-	(2,573)
<b>Total Financial Liabilities</b>	<b>(2,868)</b>	<b>-</b>	<b>-</b>	<b>(2,868)</b>
<b>Net Financial Assets</b>	<b>539,323</b>	<b>169</b>	<b>33,449</b>	<b>572,941</b>

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

## 17 Financial Instruments

### (a) Classification of financial instruments

The following table analyses the carrying amounts of financial instruments by category and net asset statement heading. No financial instruments were reclassified during the accounting period.

31 March 2016				31 March 2017		
Fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000		Fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000
20,387	-	-	<b>Financial Assets</b>	-	-	-
74,018	-	-	Equities	-	-	-
66,190	-	-	Fixed Interest Securities	78,972	-	-
65	-	-	Index linked securities	36,940	-	-
357,870	-	-	Derivative contracts	63	-	-
33,449	-	-	Pooled investment Vehicles	500,596	-	-
-	7,187	-	Property	38,641	-	-
-	2,935	-	Cash	-	2,039	-
-	13,708	-	Other Investment Balances	-	1,370	-
-	-	-	Debtors	-	13,136	-
<b>551,979</b>	<b>23,830</b>	<b>-</b>	<b>Financial Assets Total</b>	<b>655,212</b>	<b>16,545</b>	<b>-</b>
(295)	-	-	<b>Financial Liabilities</b>	-	-	-
-	-	(1,092)	Derivative contracts	-	-	-
-	-	(1,481)	Other Investment Balances	-	-	(113)
-	-	-	Creditors	-	-	(265)
<b>(295)</b>	<b>-</b>	<b>(2,573)</b>	<b>Financial Liabilities Total</b>	<b>-</b>	<b>-</b>	<b>(378)</b>
<b>551,684</b>	<b>23,830</b>	<b>(2,573)</b>	<b>Grand total</b>	<b>655,212</b>	<b>16,545</b>	<b>(378)</b>
<b>572,941</b>				<b>671,379</b>		

**(b) Net Gains and Losses on Financial Instruments**

2015/16 £000		2016/17 £000
(8,336)	<b>Financial assets</b>	
-	Fair value through fund account	95,254
-	Loans and receivables	-
-	<b>Financial liabilities</b>	
-	Fair value through fund account	-
-	Loans and receivables	-
<b>(8,336)</b>	<b>Total</b>	<b>95,254</b>

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

**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.

Responsibility for the Fund's risk management strategy rests with the pension fund committee. Risk management policies are established to identify and analyse the risks faced by the authorities' pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

#### (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 2017/18 reporting period:

Asset Type	31 March 2017 Potential market movements (+/-) %	31 March 2016 Potential market movements (+/-) %
Global Equities inc. UK	9.68	11.30
Fixed Interest Bonds	9.25	8.18
Index Linked Bonds	14.29	10.82
Global Pooled inc UK	4.93	4.78
Property	3.05	2.69
Cash	0.01	0.01

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 2017 £000	Change %	Value on Increase £000	Value on Decrease £000
Global Equities inc.UK	-	-	-	-
Fixed Interest Bonds	78,972	9.25	86,277	71,667
Index linked Bonds	36,940	14.29	42,219	31,662
Global Pooled inc.UK	500,940	4.93	525,276	475,917
Property	38,641	3.05	39,820	37,462
Cash	2,039	0.01	2,039	2,039
<b>Total</b>	<b>657,188</b>		<b>695,631</b>	<b>618,747</b>

Asset Type	Value as at 31 March 2016 £000	Change %	Value on Increase £000	Value on Decrease £000
Global Equities inc.UK	20,387	11.30	22,690	18,083
Fixed Interest Bonds	74,018	8.18	80,073	67,964
Index linked Bonds	66,190	10.82	73,352	59,028
Global Pooled inc.UK	357,870	4.78	374,976	340,764
Property	33,449	2.69	34,349	32,549
Cash	7,187	0.01	7,188	7,186
<b>Total</b>	<b>559,101</b>		<b>592,628</b>	<b>525,574</b>

### 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 2017 and 31 March 2016 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

### 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 council recognises that interest rates can vary and can affect both income to the fund and the carrying value of fund assets, both of which affect the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy.

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

Assets exposed to interest rate risk	Value as at 31 March 2017 £000	Potential movement on 1% change in interest rates £000	Value on increase £000	Value on Decrease £000
Bond Securities	115,912	1,159	117,071	114,753
Cash and Cash Equivalents	2,039	20	2,060	2,019
Cash Balances	12,822	128	12,950	12,694
<b>Total Change in Asset Value</b>	<b>130,773</b>	<b>1,307</b>	<b>132,081</b>	<b>129,466</b>



Assets exposed to interest rate risk	Value as at 31 March 2016 £000	Potential movement on 1% change in interest rates £000	Value on increase £000	Value on Decrease £000
Bond Securities	140,208	1,402	141,610	138,806
Cash and Cash Equivalents	7,188	72	7,260	7,116
<b>Total Change in Asset Value</b>	<b>147,396</b>	<b>1,474</b>	<b>148,870</b>	<b>145,922</b>

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

### 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.

### 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 9.20% over a rolling 36 month period.

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

A 9.20% 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:

Assets exposed to currency risk	Value as at 31 March 2017 £000	Potential Market movement at 9.20% £000	Value on increase £000	Value on Decrease £000
Overseas Equities	-	-	-	-
Overseas Pooled	-	-	-	-
Overseas Index Linked Bonds	389	36	425	353
Overseas Fixed Interest Bonds	1,264	116	1,380	1,148
Overseas Cash	5	-	5	5
<b>Total change in assets available to pay benefits</b>	<b>1,658</b>	<b>152</b>	<b>1,810</b>	<b>1,506</b>

Assets exposed to currency risk	Value as at 31 March 2016 £000	Potential Market movement at 7.80% £000	Value on increase £000	Value on Decrease £000
Overseas Equities	19,113	1,491	20,604	17,622
Overseas Pooled	1,901	148	2,049	1,753
Overseas Index Linked Bonds	13,094	1,021	14,115	12,073
Overseas Cash	26	2	28	24
<b>Total change in assets available to pay benefits</b>	<b>34,134</b>	<b>2,662</b>	<b>36,796</b>	<b>31,472</b>

## **(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.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2016 the value of liquid assets was £522m, which represented 93% of the total Fund (31 March 2015 £540m, which represented 95% of the total fund assets).

## **(d) Refinancing Risk**

The key risk is that the Authority will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The Authority does not have any financial instruments that have a refinancing risk as part of its investment strategies.

# **19. Funding Arrangements**

## **Actuarial Statement for 2016/17**

This statement has been prepared in accordance with Regulation 57(1) (d) of the Local Government Pension Scheme Regulations 2013. 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.

#### **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 2016 were valued at £573 million, were sufficient to meet 67% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £284 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 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 2016 valuation report.

##### **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 2016 valuation were as follows:

<b>Assumptions</b>	<b>31 March 2016 %</b>
Discount Rate for Period	4.0
Pay increases *	2.4
Price inflation/Pension increases	2.1

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 2013 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:

	<b>Males</b>	<b>Females</b>
Current Pensioners	22.0 years	24.2 years
Future Pensioners*	23.9 years	26.3 years

\* Currently aged 45

Copies of the 2016 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 31 March 2016**

Since the last formal valuation, real bonds yields have fallen placing a higher value on the liabilities. The effect of this has been broadly offset by strong asset returns. Both events have roughly cancelled each other out in terms

of the impact on the funding position as at 31 March 2017.

The next actuarial valuation will be carried out as at 31 March 2019. The funding Strategy Statement will also be reviewed at that time.

## 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. This valuation is not carried out on the same basis as that used for setting fund contribution rates and the fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

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).

31 March 2016 £m	Year Ended	31 March 2017 £m
476	Present Value of Promised Retirement Benefits	475
153	Fair Value of Scheme assets (bid Value)	245
363	Net Liability	486
992	Total (£m)	1,206

The promised retirement benefits at 31 March 2017 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, the actuary is satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, the actuary has not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. 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 and are different as at 31 March 2017 and 31 March 2016. It is estimated that the impact of the change in financial assumptions to 31 March 2017 is to increase the actuarial present value by £206m. It is estimated that the change in demographic and longevity assumptions is to decrease the actuarial present value by £17m.

## Financial assumptions

The actuary's recommended financial assumptions are summarised below:

Year Ended	31 March 2017 % p.a.	31 March 2016 % p.a.
Pension Increase Rate	2.4	2.1
Salary Increase Rate	2.7	3.1
Discount Rate	2.5	3.4

## Longevity assumption

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 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	22.0 years	24.2 years
Future Pensioners	23.9 years	26.3 years

Please note the longevity assumptions have changed since last year's 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.

## Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2017	Approximate increase to liabilities %	Approximate monetary amount £m
0.5% p.a. increase in the Pension Increase Rate	7	89
0.5% p.a. increase in the Salary Increase Rate	2	22
0.5% p.a. decrease in the Real Discount Rate	9	113

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

## Professional notes

These notes accompany the covering report titled 'Actuarial Valuation as at 31 March 2017 for accounting purposes'. 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

2015/16 £000		2016/17 £000
	<b>Debtors:</b>	
-	Pension Grants	-
-	Other Local Authorities	-
288	Contributions due from employers	224
82	Contributions due from employees	71
67	Pension Fund Investment Interest	-
675	Pension Fund Bank Account Balances	-
-	Debtors Refund	18
12,595	Cash deposit with LB Havering	12,823
<b>13,707</b>	<b>Current Assets</b>	<b>13,136</b>

2015/16 £000	Analysis of Debtors	2016/17 £000
-	NHS Bodies	-
-	Other local authorities	-
288	Public corporation and trading funds	224
82	Other entities and individuals	71
<b>370</b>	<b>Total Debtors</b>	<b>295</b>

## 22. Current Liabilities

2015/16 £000		2016/17 £000
	<b>Creditors:</b>	
(883)	Unpaid Benefits	(80)
(251)	Accrued Expenses	(132)
(320)	Income Tax Recoveries	-
(27)	Holding Accounts	(53)
<b>(1,481)</b>		<b>(265)</b>

2015/16 £000	Analysis of Creditors	2016/17 £000
(1,481)	Other entities and individuals	(265)
<b>(1,481)</b>	<b>Total</b>	<b>(265)</b>

## 23. Additional Voluntary Contributions

Market Value 2015/16 £000	AVC Provider	Market Value 2016/17 £000
707	Prudential	801
169	Standard Life	202

Some employees made additional voluntary contributions (AVC's) of £52,413 (2015/16 £54,827) 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 2016/17 were £38,515 (2015/16 £40,807) to the Prudential and £13,898 (2015/16 £14,020) to Standard Life.

## 24. Agency Services

Havering Council pays discretionary awards to the former employees of Havering. The amounts paid are not included within the Fund Account but are provided as a service and fully reclaimed from the employer bodies. The sums are disclosed below.

2015/16 £000		2016/17 £000
1,452	Payments on behalf of Havering Council	1,410

## 25. 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 administering by Havering Council and consequently there is a strong relationship between the Authority and the Pension Fund. In 2016/17, £0.459m was paid to the Authority for the cost of administering the Fund (2015/16 £0.450m).

The Authority is also the largest employer in the Fund and in 2016/17 contributed £24.997m (2015/16 £27.798m) to the Pension Fund in respect of employer's contributions.

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 2017 cash holdings totalled £12.8m (2015/16 £12.96m), earning interest over the year of 0.094m (2015/16 0.067m).

### 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 Deputy Chief Executive Communities and Resources for the months of April to November 2016 and to the Statutory Section 151 officer from November 2016 to March 2017.

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.

### Note 25a Key Management Personnel

Paragraph 3.9.4.3 of the Code exempts local authorities from the key management personnel disclosure requirements of IAS24, on the basis that the disclosure requirements for officer remuneration and members allowances detailed in section 3.4 of the Code (which are derived from the requirements of Schedule 1 of The Accounts and Audit Regulations 2015 satisfy the key management personnel disclosure requirements of

paragraph 16 of IAS 244. This applies in equal measure to the accounts of the Havering Pension Fund.

The disclosures required by the above legislation can be found in the main accounts of Havering Council.

## **26. Contingent Liabilities and Contractual Commitments**

There are no material outstanding capital commitments (investments) as at 31 March 2017 (2015/16 £0.186m). This relates to an outstanding commitment due on an unquoted private equity fund.

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity part of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over a period of between four and six years from the date of each original commitment.

Following the Freedom and Choice provisions announced in the 2014 Budget, the Pension Fund has seen some enquiries from members about transferring benefits out of the LGPS. As mentioned in Note 10 there are potential liabilities of £0.7m in respect of individuals transferring out of the pension Fund upon whom the Fund is awaiting final decisions. Information is not available which shows how much of this is attributable to Freedom and Choice provisions.

## **27. Contingent Assets**

Three admitted bodies in the Havering Pension Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds total £4.2m and are drawn down in favour of the Pension Fund. Payment will only be triggered in the event of employer default.

Five admitted bodies, which are subject to pending legal agreements, will hold bonds or guarantees totalling £1.7m.

## **28. Impairment Losses**

There were no material impairment losses for bad and doubtful debts as at 31 March 2017.



## 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 Section 151 officer's Responsibilities

The Section 151 Officer 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 Section 151 officer has:

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

The Section 151 Officer 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 2017 and its income and expenditure for the year ended 31 March 2017.

Councillor John Crowder  
Chairman, Pensions Committee  
Date: .....

Debbie Middleton  
Section 151 Officer  
Date: .....

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

## ***TO BE REPLACED WITH 2016/17 OPINION***

We have examined the pension fund financial statements for the year ended 31 March 2016, which comprise the:

- Fund Account;
- Net Assets Statement; and
- Related notes 1 to 27.

This report is made solely to the members of London Borough of Havering, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Chief Executive and the auditor**

As explained more fully in the Statement of the Chief Executive's Responsibilities set out on page 73, the Chief Executive is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of London Borough of Havering, and its compliance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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 pension fund financial statements. The other information consists only of the Introduction, Scheme Administration Report, Administering Authority Report, Investment Report and Appendices.

We conducted our work in accordance with guidance issued by the National Audit Office. Our report on the administering authority's full annual statement of accounts describes the basis of our opinions on those financial statements.

### **Opinion**

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of London Borough of Havering for the year ended 31 March 2016 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Melissa Hargreaves  
for and on behalf of Ernst & Young LLP, Appointed Auditor  
Manchester

# 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 was operative from 1 April 2014 until this was replaced with the revised version, which was reviewed in conjunction with the 2016 valuation.

The FSS 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 on page 83 of this 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. This was superseded by the Investment Strategy Statement (ISS) developed in January and March 2017.

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

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

The SIP that was in place until January 2017 is available upon request by contacting the designated contact on page 83 of this report

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 on page 83 of this 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
- The promotion of the scheme to prospective members and their employers









This statement is reviewed periodically. A revised Communications Policy Statement was approved at the Pension Committee on 24<sup>th</sup> November 2015 for the period 2016 – 2018. A review of the Communication Strategy achievements for 2016/17 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
<b>Action 1 – Get ready for new challenges for active members</b>					
Review employee communications methods to ensure that they are efficient as well as effective					Continuing to review and update pension website for content and to make it easier to find information, created a factsheet to assist scheme members use the online calculators and modellers.
Promote use of the LBH pension website <a href="http://www.yourpension.org.uk/handr">www.yourpension.org.uk/handr</a> and the Council's Pension Fund pages, <a href="http://www.havering.gov.uk/pension_fund">www.havering.gov.uk/pension_fund</a>					Continue to promote websites at all meetings and in all communications – (letters and phone calls). Also a QR 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. This was essential for Automatic re-enrolment.
Promote member online access to the pension administration system in line with self service					Contracted for, as part of new pension system, on-going for 2016/17 implementation. Member Self Service (MSS) is now LIVE and promotion of the service continues.
Promote upload of member online benefit statements in line with self service					Both stages of disclosure have been completed and statements are due to be uploaded in August 2017.
































Communication Responsibilities	Paper	Electronic	Web	Face	Achieved
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 has supported senior staff at all communication meetings – new scheme presentations, pre-retirement courses and new employer introduction meetings. Also started to allocate employers to Senior Transactional Agents to manage support and communications.
<b>Action 2 – Get ready for new challenges for employers</b>					
Maximise the use of the newly developed ERM Pensions Team employer communication database on ALTAIR					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. Meetings on Employer Discretions together with new employer meetings are also held, together with year-end requirements. Investigate production of a pensions administration strategy in 2017/18
Continually review and improve the material and service available to employers via the LBH pension website( <a href="http://www.yourpension.org.uk/handr">www.yourpension.org.uk/handr</a> ), and the Council website, <a href="http://www.haverling.gov.uk/pages/servoces/pension-fund.aspx">www.haverling.gov.uk/pages/servoces/pension-fund.aspx</a>					A new employer tab has continued to be developed on the pension website and has been updated for the new CARE 2014 scheme. A Local Pension Board tab has also been created, holding links to agendas and minutes of all LPB meetings, board member contact details, and the role and responsibilities of the board members. 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.






Communication Responsibilities	Paper	Electronic	Web	Face	Achieved
Collate Employer Discretion Documents					Published policies and Employer discretions, where available, on the pension website. 29 out of 32 employers in the fund have their discretions in place and published.
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
<b>Action 3 – Get ready for new challenges for pensioners</b>					
Explore development of member online access to the pension administration system in line with self-service					Once payroll is done via ALTAIR then access to MSS will be given to pensioners.

### Communication Material

Communication material	Paper	Electronic	Web	Face	frequency	Intended Audience, : Active = A, Deferred = D Pensioner = P, Prospective members = PM Employers = E Or - ALL
Payslips – Active staff					Monthly, electronic for Corporate staff	A
Payslips for pensioners					April, May and October	P
Information packs for new staff					With the offer of the job, and when enrolled under Automatic enrolment duties	PM
newsletters					When required	All but targeted as appropriate
Pension updates					When required	All but targeted as appropriate
Annual Benefit Statement					Annually, July / August	A, D,



Communication material	Paper	Electronic	Web	Face	frequency	Intended Audience, : Active = A, Deferred = D Pensioner = P, Prospective members = PM Employers = E Or - ALL
Notice of Pension Increase					Annually	P
Letters / Enquiries					As required	ALL
Estimates					As required	A, D
Forms						ALL
Factsheets					For viewing as required	ALL
Scheme Guides						ALL
Global emails					As required	A - Corporate
Pop ups					As required	A - Corporate
Core Briefs					As required	A - Corporate
School Portal					As required	A – school based
Year End requirements information					Annually	E not on the corporate payroll
Induction Sessions					As Required	PM, carried out by HR team but supported by Pensions Team,
Roadshows					As required	
Pre-retirement Seminars					Twice yearly	P and prospective Pensioners
Communications Strategy					Reviewed 3 yearly	ALL
Communications Policy Statement					Reviewed annually	ALL
Annual Report & Accounts					Annually	ALL
Whistleblowing Policy						ALL
Funding Strategy Statement						ALL
Statement of Investment Principles/ investment Strategy Statement						ALL

Communication material	Paper	Electronic	Web	Face	frequency	Intended Audience, : Active = A, Deferred = D Pensioner = P, Prospective members = PM Employers = E Or - ALL
Specialised information leaflets – Annual Allowance					As required	ALL
Assistance for new employers on their responsibilities					As required	E
Assistance and Support at TUPE Roadshows					As required	A, E

The pension website is promoted on the staff intranet at the Council and in posters placed on staff notice boards in all Council 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 website has been further enhanced to provide links to DirectGov, for information on the new Single Tier State Pension

The Council 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, 2<sup>nd</sup> Floor  
Park End Road  
Romford  
RM1 3AR  
Telephone: 01708 432978/ 2981/ 2192

Email: [pensions@havering.gov.uk](mailto: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, 1<sup>st</sup> Floor  
Park End Road  
Romford  
RM1 3AR

Telephone: 01708 432569

Email: [debbie.ford@havering.gov.uk](mailto:debbie.ford@havering.gov.uk)

## Other useful addresses:

Local Government Pension Scheme website: [www.lgps.org.uk](http://www.lgps.org.uk)

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

The Pension Service website: [www.thepensionsservice.gov.uk](http://www.thepensionsservice.gov.uk)  
[www.gov.uk/browse/working/state-pension](http://www.gov.uk/browse/working/state-pension)

# APPENDICES



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

## **PENSION FUND**

# **GOVERNANCE COMPLIANCE STATEMENT**

# LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

## Contents

Structure and Role of Members

Membership and Representation

Guidance and Monitoring

Reimbursement

Training

Meetings

Scope

Access and Publication

Reviewing and Updating

Compliance Table

- Principle A Structure
- Principle B Committee Membership and Representation
- Principle C Selection and role of lay members
- Principle D Voting
- Principle E Training/Facility time/Expenses
- Principle F Meetings (frequency/quorum)
- Principle G Access
- Principle H Scope
- Principle I Publicity

## LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

### 1. STRUCTURE AND ROLE OF MEMBERS

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. The Council agreed changes to its Constitution on the 25 March 2015 to establish the Havering Local Pension Board and adopt their Code of Conduct and Conflict of Interest policies.

Day to day management of the Fund is delegated to the Deputy Chief Executive Communities and Resources

#### 1.1 Role of Pensions Committee

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, advisors and fund managers and in respect of other related investment matters;
- To appoint and review the performance of advisors 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.

There is a code of conduct in place which includes a process that considers potential conflicts of interest, with clearly identified steps on how to report or act should a conflict occur. All members are required to declare any interests in relation to the Pension Fund or items on the agenda at the start of each meeting.

#### 1.2 Role of Local Pension Board (the Board)

The functions of this board are as follows:

- Securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme connected to it;

## LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

- Securing compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions regulator;
- Such other matters as the scheme regulations may specify.

All members of the Board must declare to the Administering Authority on appointment and at any such time as their circumstances change, any potential conflict of interest arising as a result of their position on the Board.

The full version of the Board's Terms of reference can be found on the Havering pension fund website: [www.Yourpension.org.uk](http://www.Yourpension.org.uk).

## 2. MEMBERSHIP AND REPRESENTATION

### 2.1 Pensions Committee

The membership of the Pensions Committee reflects the political balance of the Council and consists of seven councillors as listed below:

<b>Conservative Group (3)</b>	<b>Resident's Group (2)</b>	<b>East Havering Resident's Group (1)</b>	<b>UKIP (1)</b>
John Crowder (Chair) Melvin Wallace Jason Frost	Stephanie Nunn Nic Dodin	Clarence Barrett	David Johnson (Vice-Chair)

\*From May 2016:

Cllr Jason Frost replaced Cllr Roger Westwood May 14 – May 16 – Conservative group

Cllr Nic Dodin replaced Cllr Ray Morgon (May 15 – May 16) – Residents' Group

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.



## LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

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.

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, unless exceptional circumstances require a change. Furthermore substitute members are expected to have also been trained. The Council's constitution was amended on the 28 March 2012 to include a stipulation that if a member does not undertake the required training within six months of appointment then that member shall not partake in the decision making of the Committee until their training has been completed.

### 2.2 Local Pension Board

The Havering Pension Board consists of four members as follows:

**Two Employer representatives** - shall be office holders or senior employees of employers of the Fund or have experience of representing scheme employers in a similar capacity. No officer or elected member of the Administering Authority who is responsible for the discharge of any function of the Administering Authority under the Regulations may serve as a member of the Board.

**Two Scheme Member Representatives** - shall either be scheme members or have capacity to represent scheme members of the Fund. Scheme member representatives should be able to demonstrate their capacity to attend and complete the necessary preparation for meetings and participate in training as required.

**Chair** - Chair is to be appointed by the employer and scheme member representatives of the Board from amongst their own number on a rotating basis with the term of office shared between an employer and a scheme member representative on an equal basis.

Each employer representative and scheme member representative appointed will serve for a fixed four year period to ensure that expertise is maintained within and members can be fully trained.

Each member of the Board will have one vote but it is expected the Board will as far as possible reach a consensus.

## LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

### 3. GUIDANCE AND MONITORING

#### 3.1 Pensions Committee

The Pensions Committee is supported by the Chief Executive, OneSource Shared Support Service. The Director of Exchequer and Transactional Services (oneSource) has the responsibility to administer the Council's Pension Fund. Members also receive briefings and advice from the Fund's investment advisor at each committee meeting.

The Pensions 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.

Investment 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 exceptions to this procedure are the pooled managers 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.

#### 3.2 Local Pension Board

Officers will attend the Board meetings and provide support and advice as and when required. A budget has been allocated for the Board to fulfil its tasks and this budget includes an allocation for professional advice.

### 4. REIMBURSEMENT

#### 4.1 Pensions Committee

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

#### 4.2 Local Pension Board

Board members will receive an allowance per scheduled meeting attended, at the same rate paid to co-opted members' for other committees. No payment will be made for nonattendance.

Reasonable travelling expenses for training will be reimbursed.

## LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

### 5. TRAINING

#### 5.1 Pensions Committee

An annual training plan is submitted to the Pensions Committee for approval. Committee Members receive in depth training on a wide range of topics. 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.

The Fund uses the CIPFA's Knowledge and Skills self-assessment training questionnaire to identify and evidence the knowledge and skills of the members. In addition to the cyclical training that the Committee will have over the lifetime of their membership, training will be provided in the areas where it has been specifically requested or has been identified as required. Associated training and development is linked to the pensions committee meeting cyclical coverage

#### 5.2 Local Pension Board

A joint training strategy is currently being developed and will be presented to the Pensions Committee and the Board during 2015/16.

### 6. MEETINGS

#### 6.1 Pensions Committee

The Pension Committee meets five times a year and occasionally holds extra meetings if required. Three Members constitute a quorum.

#### 6.2 The Local Pension Board

The Board will hold five meetings per year, approximately two weeks after the Pensions Committee meeting, with one Annual meeting being held at the beginning of the committee cycle. Three members constitute quorum. Advisors and officers do not count towards the quorum.

## LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

### 7. SCOPE

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.
- The Funding Strategy Statement identifies the measures in place to control the key risks identified as financial (including investment risk), demographic, regulatory and governance.
- 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
- The Pension Committee periodically sets out a business plan for the year.
- 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.

## LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

### 8. ACCESS AND PUBLICATION

#### 8.1 Pensions Committee

Details of the Pension Committee meetings are published on the Council's website, seven days prior to the meeting date, together with agendas and minutes. All members have equal access to papers. 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.

#### 8.2 Local pension Board

Details of the Local Pension Board meetings are published on the Council's website, seven days prior to the meeting date, together with agendas and minutes. All board members have equal access to papers. The meetings of the Board are held at the Town Hall during office hours and are open to the public.

### 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 Secretary of State.

## LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

PRINCIPLE	HAVERING POSITION
<p><b>A <u>Structure</u></b></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>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>c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.</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><b>Full compliance.</b> Duties and terms of reference are laid out in the Council's 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 Chief Executives. Select link to Havering Website to read the Council's constitution: <a href="#">Havering Constitution</a></p> <p>Section 1 the Governance Compliance Statement refers.</p> <p><b>Full compliance.</b> 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. The Local Pension Board includes two employer representatives and two scheme member representatives</p> <p>There is no secondary committee.</p> <p>Section 2 of the Governance Compliance Statement refers.</p> <p>No secondary committee or panel has been established.</p> <p>No secondary committee or panel has been established.</p>

## LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

	PRINCIPLE	HAVERING POSITION
B	<p><b><u>Committee Membership and Representation</u></b></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"> <li>i) employing authorities (including non-scheme employers, e.g. admitted bodies);</li> <li>ii) scheme members (including deferred and pensioner scheme members),</li> <li>iii) where appropriate, independent professional observers, and</li> <li>iv) expert advisors (on an ad-hoc basis)</li> </ul>	<p><b>i) Full compliance</b> - A position has been established for Admitted/Scheduled bodies' representative to be a member of the Pensions Committee and is currently occupied by the bursar from St Edwards Church of England 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><b>ii) Full compliance</b> – via trade union representation</p> <p><b>iii) Non-compliance</b> – 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><b>iv) Full compliance</b> – The Fund has appointed an Investment Advisor, an Actuary and Performance Measurers, who attend meetings as and when required.</p> <p>Sections 2 and 3 of the Governance Compliance Statement refer.</p>

## LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

	PRINCIPLE	HAVERING POSITION
C	<p><b><u>Selection and role of lay members</u></b></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><b>Full compliance.</b> Duties and terms of reference are laid out in the 'Council's constitution and states that management of the pension fund lies with the Pensions Committee.</p> <p>Sections 1 and 2 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><b>Full compliance.</b> Declarations of interest are always an agenda item at the Pension Committee meetings.</p> <p>Section 1 of the Governance Compliance Statement refers.</p>
D	<p><b><u>Voting</u></b></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><b>Full compliance.</b> The Governance Compliance Statement is clear about voting rights</p> <p>Section 2 of the Governance Compliance Statement refers.</p>



## LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

E	<p><b><u>Training/Facility time/Expenses</u></b></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><b>Full compliance.</b> Member's expenses and allowances are laid out in the Council's Constitution (Part 6). Local Pension Board members will receive an allowance per scheduled meeting attended, at the same rate paid to co-opted members' for other committees. No payment will be made for nonattendance.</p> <p>Reasonable travelling expenses for training will be reimbursed to Local Pension board members.</p> <p>The Business Plan includes the policy on training. Sections 4 and 5 of the Governance Compliance Statement refer.</p>
	<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><b>Full compliance.</b> 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><b>Full compliance.</b></p> <p>As above. A joint training plan has been adopted by the Pensions Committee and the Local Pension Board and is included within 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.</p> <p>A training log is maintained and records attendance and training undertaken.</p> <p>Section 5 of the Governance Compliance Statement refers.</p>

## LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

	PRINCIPLE	HAVERING POSITION
F	<b><u>Meetings (frequency/quorum)</u></b> a. That an administering authority's main committee or committees meet at least quarterly	<b>Full compliance.</b> The Pension Committee meets five times a year and occasionally holds extra meetings if and when required.  Section 6 of the Governance Compliance Statement refers.
	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.	No secondary committee or panel has been established.
	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.	<b>Full compliance.</b> Membership on the Pensions Committee includes a representative to serve all Admitted/Scheduled bodies. Representatives also sit on the Local Pension Board.  The current forums for which stakeholders interests can be represented are: <ul style="list-style-type: none"> <li>• Through invitation to committee meeting</li> <li>• Written correspondence – employers are invited for comments via letters and email as part of any consultation process, including proposed policy changes. 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.</li> </ul>

## LONDON BOROUGH OF HAVERING PENSION FUND GOVERNANCE COMPLIANCE STATEMENT

	PRINCIPLE	HAVERING POSITION
Page 207	<b>G</b> <b><u>Access</u></b> <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>	<b>Full compliance.</b> 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.  Section 8 of the Governance Compliance Statement refers.
	<b>H</b> <b><u>Scope</u></b> <p>a. That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements</p>	<b>Full compliance.</b> The Committee already considers a wider range of pension issues.  Section 7 of the Governance Compliance Statement refers.
	<b>I</b> <b><u>Publicity</u></b> <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>	<b>Full compliance.</b> Governance arrangements are published on the Council's website and comments are invited from stakeholders.  Section 8 of the Governance Compliance Statement refers.



# Havering

L O N D O N   B O R O U G H

## **HAVERING PENSION FUND COMMUNICATION STRATEGY**

**2016-2018**

## COMMUNICATION STRATEGY 2016 - 2018

### INTRODUCTION

The Local Government Pension Scheme (LGPS) moved to a Career Average Revalued Earnings (CARE) basis from April 2014

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
  - ADMITTED BODIES
  - LOCAL PENSION BOARD
  - PENSION PANEL
- SCHEME MEMBERS
  - ACTIVE MEMBERS (CONTRIBUTORS)
  - RETIRED MEMBERS AND DEPENDENTS
  - DEFERRED MEMBERS
  - PENSION CREDIT MEMBERS
- PROSPECTIVE SCHEME MEMBERS
- OFFICERS WORKING IN THE ONESOURCE 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 the methods used being kept under review.

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

### COMMUNICATION DELIVERABLES

There are three areas of significant challenge that will drive the communication strategy during the period 2016 – 2018:

- i) Automatic Re-enrolment;
- ii) The Triennial Revaluation; and
- iii) The introduction of Member Self-service.

The key actions required to deliver the focus of the strategy follow. These are the basis of the Communication Strategy monitoring.

The Key actions will be -

#### Action 1 – Active Members

- Continue to review employee communications methods to ensure that they are efficient as well as effective
- Continue to promote use of the LBH pension website, [www.yourpension.org.uk/handr](http://www.yourpension.org.uk/handr) and the Council's Pension Fund pages, [www.havering.gov.uk/pages/services/pension-fund.aspx](http://www.havering.gov.uk/pages/services/pension-fund.aspx)

- Continue in the development of member online access to their pension record in line with oneSource self-service,
- explore the development of member online Annual Benefit statements via Member Self Service,
- support the Pension Team staff in developing communication skills through training, support and on the job training to increase their overall skills and knowledge.

#### **Action 2 – Employers:**

- continue to maximise the use of the 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](http://www.yourpension.org.uk/handr), and the Council website,  
[www.haverling.gov.uk/pages/service/pension-fund.aspx](http://www.haverling.gov.uk/pages/service/pension-fund.aspx)
- Complete the collation and publication of 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 – Pensioners:**

- explore development of member self-service access to their pension record on the administration system in line with oneSource self-service.

#### **Action 4 – Deferred Pensioners:**

- explore development of member self-service access to their pension record on the administration system in line with oneSource self-service.

### **COMMUNICATION RESPONSIBILITIES AND METHODS**

The provision of timely and relevant information to stakeholders is key to managing the need for information and it is important we manage these expectations in resource terms (i.e. staff time).

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 continual review of the effectiveness and efficiency of all communication channels takes place, aiming at developing the more efficient channels. The channels on order of efficiency are:

- on-line self-service,
- websites,
- employer newsletters and electronic updates,
- 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),

- regular meetings with External Employers (joint meetings and individual surgeries),
- roadshows for groups of Fund members,
- meeting Fund members individually face-to-face,

The Pensions Team consider 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. An example of “savings” has been the change to a generic letter to pensioners detailing the pensions increase which was sent with the April payslips, saving postage costs and officer time checking the previous bespoke letters.

### **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.

Reports were taken to Pensions committee during the year regarding / covering \LGPS Governance Reform, LGPS Administering Authority’s Discretion Policies, LGPS Employer Discretions Policies and Pension fund Charging Policy.

### **LOCAL PENSION BOARD**

Legislation required the creation of a Local Pension Board by 1 April 2015. The role of the board being to assist the Authority’s Pension Manager in executing her duties.

A joint working party with L B Newham staff met regularly to ensure that the Terms of Reference and makeup of the board was agreed by Council in time.

### **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. Officers of the pension team continue to support new Academies as separate employers with the breadth of their new responsibilities. 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, or for consultation. Changes to the Regulations which impact upon the employer's function or their employees are also covered.

### **Employers' Guide**

Guidance is issued electronically to assist the fund 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 established on the Fund website. All manuals and Scheme literature is available on this site and is updated as required.

### **Site Meetings**

Meetings with non-Havering Employers take place at their premises or at the council office, as required. Specifically this has been used as a mechanism for communicating major strategic issues, significant legislation changes and triennial valuation matters. "Yearend" meetings are held with Employers not on the council payroll.

## **SCHEME MEMBERS**

### **Internet**

Continue to review and develop the websites 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 and Fund website [www.yourpension.org.uk/handr](http://www.yourpension.org.uk/handr)

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.

It is intended that scheme members will be informed of the annual report via a "Global news" item when it is available on both websites.

### **Newsletters**

Newsletters are issued to members of the Fund, as changes to the scheme occur, and covers current hot 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 currently sent direct to the home address of all members who are contributing to the Fund at the previous financial year end. It is the intention to have these made available through Member Self Service when it is launched.

Benefit Statements are also sent direct to the home address of deferred members where requested to a home address where it 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 (as above).



### **Pay Advices**

The Fund issues a pay advice to Scheme pensioners if their net pay varies by more than £5.00. An initial payslip, detailing the first pension payment, is sent to the home address. Further payslips will only be issued each April, May and October.

Additionally, Pension Increase letters are sent out annually and a P60 is issued annually by 31 May as per HMRC deadlines.

The authority operates Real time Information (RTI).

### **Correspondence**

The fund utilises the oneSource service contact telephone number and email through Service Manager, together with surface mail and e-mail to receive and send correspondence in accordance with Audit advice and guidance.

### **Pension Roadshows**

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.

As well as being a valuable aid for pensioners and current scheme members, roadshows are used to target specific non-members.

## **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](http://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.

### **Corporate Induction Courses**

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

### **One-to-One" surgeries**

One-to-One surgeries or meetings are held when requested to take account of individual queries.

## **OFFICERS WORKING IN THE ONESOURCE (HAVERING) PENSION TEAM AND FUND MANAGEMENT**

### **Service Management Teams**

The Fund is managed by Corporate Strategic Finance Services and administered by oneSource whose Senior Officers report to the relevant Directors.

### **Team Meetings**

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

### **Shared Area**

Shared areas give all pension team 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. A database of links to all legislative circulars and bulletins is maintained to assist the team access information efficiently.

### **Induction**

All new members of pension team staff undergo an induction procedure.

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. Skills and knowledge is kept up to date through participation at seminars, forums and conferences.

### **Pension Fund Accountant**

The fund accountant 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 of Communities and Resources in rotation.

## **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.

### **CIPFA Benchmarking Club**

The Council has decided to no longer participate in CIPFA but from 2015 will participate in Scheme Advisory Board benchmarking. This benchmarking will be mandatory from 2016 onwards.

### **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.

The authority participates in the National fraud initiative.

## Our Aspirations

The Communication strategy is designed to complement the service we offer, and ensure we are communicating effectively with our stakeholders.

We aim to:

- communicate in a friendly way using plain English as much as possible, and professional jargon only where necessary
- use various mediums as appropriate and as efficiently and as economically as possible
- ensure all information on the scheme and associated topics is succinct, relevant and up to date.

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.

Online ABS

## 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**  
**oneSource**  
**Central Library, 2<sup>nd</sup> Floor,**  
**St Edwards Way**  
**Romford**  
**RM1 3AR**

**Tel: 01708 433333**  
**Fax: 01708 432078**  
**E-Mail: [pensions@haverling.gov.uk](mailto:pensions@haverling.gov.uk),**

**Council's website:**  
**[www.haverling.gov.uk/pages/services/pension-fund.aspx](http://www.haverling.gov.uk/pages/services/pension-fund.aspx)**

**Fund website:**  
**[www.yourpension.org.uk/handr](http://www.yourpension.org.uk/handr)**

**Direct dial telephone numbers are quoted on letters issued by the fund.**



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

# London Borough of Havering Pension Fund

Funding Strategy Statement  
March 2017

HYMANS  ROBERTSON

# Contents

Funding Strategy Statement	PAGE
1 Introduction	-
110 -	
2 Basic Funding issues	-
113 -	
3 Calculating contributions for individual Employers	-
117 -	
4 Funding strategy and links to investment strategy	-
128 -	
Appendices	
Appendix A – Regulatory framework	-
130 -	
Appendix B – Responsibilities of key parties	-
134 -	
Appendix C – Key risks and controls	-
136 -	
Appendix D – The calculation of Employer contributions	-
140 -	
Appendix E – Actuarial assumptions	-
143 -	
Appendix F – Glossary	
Error! Bookmark not defined.	

# 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 2017.

## 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 B](#).

## 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 also, 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 A](#).

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 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 policies on admissions, cessations and bulk transfers;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Investment Strategy Statement (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 or 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;
- 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 (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. the regulatory background, including how and when the FSS is reviewed,
- B. who is responsible for what,
- C. what issues the Fund needs to monitor, and how it manages its risks,
- D. some more details about the actuarial calculations required,
- E. the assumptions which the Fund actuary currently makes about the future,
- 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@oneSource.co.uk](mailto:Debbie.Ford@oneSource.co.uk) or on telephone number 01708 432 569.



## 2 Basic Funding issues

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

### 2.1 How does the actuary measure the required contribution rate?

In essence this is a three-step process:

- Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See [Appendix E](#) for more details of what assumptions we make to determine that funding target;
- Determine the time horizon over which the employer should aim to achieve that funding target. See the table in [3.3](#) and [Note \(c\)](#) for more details;
- Calculate the employer contribution rate such that it has a predetermined minimum probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See [2.3](#) below, and the table in [3.3 Note \(e\)](#) for more details.

### 2.2 What is each employer's contribution rate?

This is described in more detail in [Appendix D](#). Employer contributions are normally made up of two elements:

- a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon") while making allowances for the stability of employer contribution rates. The Secondary rate may be expressed as a percentage of pay or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

### 2.3 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 (or Multi Academy Trusts)**, 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 town and parish councils 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. Please note, this does not apply to Higher and Further Education bodies.

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, 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. Please note, the terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term ‘admission bodies’; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers.

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.

## 2.4 How does the measured contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in [Section 3](#) and [Appendix D](#)).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners’ life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation;
2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform; and
3. The **probability of achieving** the funding target over that time horizon will be dependent on the Fund’s view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

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](#).

Costs of ill-health early retirements are covered in [3.7](#) and [3.8](#).

## **2.5 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 (see [Appendix D](#), section [D5](#), for further details of how this is calculated), 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 surplus is the difference between the asset value and the liabilities value.

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

## **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 at a reasonable cost.

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. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates;
- 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 Administering Authority takes a view on the financial standing of the employer, i.e. its ability to meet its funding commitments and the relevant time horizon.

For instance, where the Administering Authority has reasonable confidence that an employer will be able to meet its funding commitments, then the Fund will permit options such as stabilisation ([see 3.3 Note \(b\)](#)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options 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, where there is doubt that an employer will be able to meet its funding commitments or withstand a significant change in its commitments, then a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target may be required.

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

## 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, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

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 lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in lieu of a higher contribution rate than would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. 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 pace of paying contributions;
- 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 may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, 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

6.5 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies and Designating Employers		Transferee Admission Bodies	
Sub-type	Local Authorities	Colleges	Academies	Open to new entrants	Closed to new entrants	Open to New Entrants	Closed to New Entrants
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see <a href="#">Appendix E</a> )			Ongoing, but may move to “gilts basis” - see <a href="#">Note (a)</a>		Ongoing, assumes fixed contract term in the Fund (see <a href="#">Appendix E</a> )	
Primary rate approach	(see <a href="#">Appendix D – D.2</a> )						
Stabilised contribution rate?	Yes - see <a href="#">Note (b)</a>	No	No	No	No	No	
Maximum time horizon – <a href="#">Note (c)</a>	20 years	20 years	20 years	Future working lifetime subject to a maximum of 15 years		Outstanding contract term subject to a maximum of 15 years	
Secondary rate – <a href="#">Note (d)</a>	Monetary Amount or percentage of pay as appropriate						
Treatment of surplus	Covered by stabilisation arrangement	Contributions kept at Primary rate. However, reductions may be permitted by the Administering Authority				Reduce contributions by spreading the surplus over the remaining contract term	
Probability of achieving target – <a href="#">Note (e)</a>	60%	75%	75%	75%		75%	
Phasing of contribution changes	Covered by stabilisation arrangement	3 years, subject to the Administering Authority being satisfied as to the strength of the employer’s covenant.				None	
Review of rates – <a href="#">Note (f)</a>	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	<a href="#">Note (g)</a>	<a href="#">Note (h)</a>		<a href="#">Notes (h) &amp; (i)</a>	
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 <a href="#">Note (j)</a> .			Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see <a href="#">Note (i)</a> .		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.	

### **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 set a higher funding target (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; 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), or changes in the security of the employer.

On the basis of extensive modelling carried out for the 2016 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 2019 valuation, to take effect from 1 April 2020. However the Administering Authority reserves the right to review the stabilisation criteria and limits at any time before then, on the basis of membership and/or employer changes as described above.



**Note (c) (Maximum time horizon)**

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 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 time horizons, for example where there were no new entrants.

**Note (d) (Secondary rate)**

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

- the employer is relatively mature, i.e. has a large Secondary contribution rate (e.g. above 15% of payroll),
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

**Note (e) (Probability of achieving funding target)**

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in [Appendix D](#).

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

**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, or failure to pay contributions or 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 conversions)**

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

- i. 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;
- ii. 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;
- iii. 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;
- iv. 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;
- v. 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, policy iii 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.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will normally be reassessed on a triennial basis. See also [Note \(i\)](#) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (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 \(i\)](#).

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.

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.

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 does not 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; and
- 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:

- Last active member ceasing participation in the Fund (please note, recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The current Fund policy is that this is left as a discretion and may or may not be applied in any given case);
- 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 non-Transferee 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) 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.
- (b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis as described in [Appendix E](#);
- (c) Again, depending on the nature of the guarantee, 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.

Under (a) and (c), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would spread the payment subject to there being some security in place for the employer such as a bond indemnity or guarantee.

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, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy. The current pools in place within the Fund are as follows:

- smaller CABs (as a way of sharing experience and smoothing out the effects of costly but relatively rare events such as ill-health retirements or deaths in service);
- Schools generally are also pooled with their funding Council. However there may be exceptions for specialist or independent schools; and
- Smaller Transferee Admission Bodies may be pooled with the letting employer, provided all parties (particularly the letting employer) agree.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

Employers who are permitted to enter (or remain in) a pool at the 2016 valuation will not normally be advised of their individual contribution rate unless agreed by the Administering Authority.

Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not usually permitted to participate in a pool.

### **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 time horizon, 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, or 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). 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. Additional contributions (strain) costs are payable immediately.

### **3.7 Ill health early retirement costs**

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see [3.8](#) below).

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 retirements over any intervaluation period 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 External Ill health insurance**

If an employer provides satisfactory evidence to the Administering Authority of a current external 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 or 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 \(i\)](#)) and consequently have no further obligation to the Fund. Thereafter it is expected that one of two 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.
- 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
- 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 Fund 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 Investment Strategy Statement, 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 as part of each actuarial valuation, and is kept under review 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 Appendix [E3](#)) 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 Appendix [A1](#)).

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, to help 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 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

#### **4.5 Does the Fund monitor its overall funding position?**

The Administering Authority monitors the investment performance quarterly and reports this to the regular Pensions Committee meetings.



## 5 Statutory reporting and comparison to other LGPS Funds

### 5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to the Department of Communities & Local Government (DCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional DCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

### 5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

- (a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either
- (b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or
- (c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

### 5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

- i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,
- ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, DCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

- 1. the implied deficit recovery period; and
- 2. the investment return required to achieve full funding after 20 years.
- 

Absolute considerations include:

- 1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;

2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustments certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

DCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

## Appendix A – Regulatory framework

### A1 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 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

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.

### A2 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 20 December 2016;
- b) Comments were requested within 30 days;
- c) Following the end of the consultation period the FSS was updated where required and then published, on 30 March 2017.

### A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at [https://www.haverling.gov.uk/info/20044/council\\_information/222/pension\\_fund](https://www.haverling.gov.uk/info/20044/council_information/222/pension_fund) and <http://www.yourpension.org.uk/handr/Haverling-Publications/Haverling-Fund-Members.aspx>
- Copies sent to investment managers and independent advisers; and
- Copies made available on request.

### A4 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 2019.

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,
- 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.

#### **A5      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 Investment Strategy Statement, 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 can be found on the web at [https://www.haverling.gov.uk/info/20044/council\\_information/222/pension\\_fund](https://www.haverling.gov.uk/info/20044/council_information/222/pension_fund) and <http://www.yourpension.org.uk/handr/Haverling-Publications/Haverling-Fund-Members.aspx>

## Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

### **B1 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 Investment Strategy Statement (ISS) 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;
- provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
- prepare and maintain a FSS and an ISS, 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 and ISS as necessary and appropriate.

### **B2 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.

### **B3 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 data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));

- 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 employers' participation in the Fund; and
- fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

**B4 Other parties:-**

- investment advisers (either internal or external) should ensure the Fund's ISS 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 ISS;
- 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;
- 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;
- the Department for Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

## Appendix C – Key risks and controls

### C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

### C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	<p>Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing.</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>
Inappropriate long-term investment strategy.	<p>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure four key outcomes.</p> <p>Chosen option considered to provide the best balance.</p>
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	<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>
Active investment manager under-performance relative to benchmark.	<p>Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.</p>
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>

Risk	Summary of Control Mechanisms
	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.
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.
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 <a href="#">3.9</a>).</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 assumptions underpinning the valuation.</p>
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking 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</p>



Risk	Summary of Control Mechanisms
	<p>brought out of that mechanism to permit appropriate contribution increases (see <a href="#">Note (b)</a> to <a href="#">3.3</a>).</p> <p>For other employers, review of contributions is permitted in general between valuations (see <a href="#">Note (f)</a> to <a href="#">3.3</a>) 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 were 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>
Time, cost and/or reputational risks associated with any DCLG intervention triggered by the Section 13 analysis (see <a href="#">Section 5</a> ).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.</p>

#### C5 Governance risks

Risk	Summary of Control Mechanisms
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>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 between triennial valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p>
Actuarial or investment advice is not sought, or is not heeded, or proves to be insufficient in	The Administering Authority maintains close contact

Risk	Summary of Control Mechanisms
some way	<p>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>
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	<p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.</p>
An employer ceasing to exist with insufficient funding or adequacy of a bond.	<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, where-ever possible (see <a href="#">Notes (h)</a> and <a href="#">(i)</a> to <a href="#">3.3</a>).</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 various risks.</p> <p>Requiring new Community Admission Bodies to have a guarantor.</p> <p>Reviewing bond or guarantor arrangements at regular intervals (see <a href="#">Note (f)</a> to <a href="#">3.3</a>).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see <a href="#">Note (a)</a> to <a href="#">3.3</a>).</p>

## Appendix D – 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.

All three steps above are considered when setting contributions (more details are given in [Section 3](#) and [Appendix D](#)):

1. The **funding target** is based on a set of assumptions about the future, eg investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then it's funding target may be set on a more prudent basis, so that it's liabilities are less likely to be spread among other employers after it's cessation of participation;
2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform;
3. The required **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

The calculations involve actuarial assumptions about future experience, and these are described in detail in [Appendix E](#).

### D1 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 ongoing benefits being accrued, referred to as the "Primary contribution rate" (see [D2](#) below); plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see [D3](#) below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to DCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. DCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

### D2 How is the Primary contribution rate calculated?

The Primary 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 Primary 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 Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits\*, excluding any accrued assets,
2. within the determined time horizon (see [note 3.3 Note \(c\)](#) for further details),
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see [3.3 Note \(e\)](#) for further details).

\* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

### **D3 How is the Secondary contribution rate calculated?**

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

For the funding target, the Fund actuary agrees the assumptions to be used with the Administering Authority – see [Appendix E](#). 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](#)).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

- meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see [D5](#) below);
- within the determined time horizon (see [3.3 Note \(c\)](#) for further details);
- with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see [3.3 Note \(e\)](#) for further details); and
- allowing for any adjustments that may be required to keep contributions as stable as possible.

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

### **D4 What affects a given employer's valuation results?**

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);

3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
4. any different time horizons;
5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required probability of achieving the funding target.

#### **D5 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".

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.

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; and
- 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 but not to audit standard. 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 E – Actuarial assumptions

### **E1 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 funding target. 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 funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

### **E2 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](#).

### **E3 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 2016 and setting contribution rates effective from 1 April 2017, 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 2013 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 2020. 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, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

1. 1% p.a. until 31 March 2020, followed by
2. retail prices index (RPI) per annum thereafter.

This is a change from the previous valuation, which assumed a flat assumption of RPI per annum. The change has led to a reduction in the funding target (all other things being equal).

## **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. 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 1.0% per annum. This is a larger reduction than at 2013, which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

## **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 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements than was made in 2013.

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 most employers, in deriving the funding target underpinning the Primary and Secondary rates: 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 F – Glossary

<b>Actuarial assumptions/basis</b>	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of <b>the funding target</b> . The main assumptions will relate to the <b>discount rate</b> , salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.
<b>Administering Authority</b>	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
<b>Admission Bodies</b>	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see <a href="#">2.3</a> ).
<b>Bond Indemnity</b>	<p>To cover early termination of a contract due to, but not limited to,</p> <ul style="list-style-type: none"><li>• 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;</li><li>• any general funding shortfall, arising from variations between experience and assumptions used when determining the ongoing Employer's contribution rate; and</li><li>• a provision to cover the potential liability due to adverse market conditions over the period until the next actuarial valuation.</li></ul> <p>This bond does not cover any final cessation payments at the end of a contract.</p>
<b>Cessation Valuation</b>	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.
<b>Covenant</b>	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.
<b>Designating Employer</b>	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.
<b>Discount rate</b>	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 <b>funding target</b> which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the <b>Primary and Secondary rates</b> .

<b>Employer</b>	An individual participating body in the Fund, which employs (or used to employ) <b>members</b> of the Fund. Normally the assets and <b>funding target</b> values for each employer are individually tracked, together with its <b>Primary rate</b> at each <b>valuation</b> .
<b>Funding target</b>	The actuarially calculated present value of all pension entitlements of all <b>members</b> of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the <b>deficit</b> . It is calculated on a chosen set of <b>actuarial assumptions</b> .
<b>Gilt</b>	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.
<b>Guarantee / guarantor</b>	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 <b>covenant</b> to be as strong as its guarantor’s.
<b>Letting employer</b>	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.
<b>LGPS</b>	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.
<b>Maturity</b>	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.
<b>Members</b>	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).
<b>Pass-through</b>	A risk sharing agreement between the letting employer and the contractor.
<b>Primary contribution rate</b>	The employer contribution rate required to pay for ongoing accrual of active members’ benefits (including an allowance for administrative expenses). See Appendix D for further details.

<b>Profile</b>	The profile of an employer's membership or liability reflects various measurements of that employer's <b>members</b> , 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 <b>maturity</b> also.
<b>Rates and Adjustments Certificate</b>	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal <b>valuation</b> . 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.
<b>Scheduled Bodies</b>	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).
<b>Secondary contribution rate</b>	The difference between the employer's actual and <b>Primary contribution rates</b> . See <a href="#">Appendix D</a> for further details.
<b>Stabilisation</b>	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.
<b>Valuation</b>	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 2016), 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

## **INVESTMENT STRATEGY STATEMENT**

## **Investment Strategy Statement: MARCH 2017**

### **Introduction and background**

This is the Investment Strategy Statement ("ISS") of the London Borough of Havering Pension Fund ("the Fund"), which is administered by Havering Council, ("the Administering Authority"). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("the Regulations").

The ISS has been prepared by the Fund's Pension Committee ("the Committee") having taken advice from the Fund's investment adviser, Hymans Robertson LLP and having regard to guidance issued by the Department for Communities and Local Government (DCLG). The Committee acts on the delegated authority of the Administering Authority.

The ISS, which was approved by the Committee on 28 March 2017, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund's investment strategy with such persons it considers appropriate.

The Committee seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund's Funding Strategy Statement dated March 2017.

### **The suitability of particular investments and types of investments**

The primary investment objective of the Fund is to ensure that the assets are invested to secure the benefits of the Fund's members under the Local Government Pension Scheme. Against this background, the Fund's approach to investing is to:

- Optimise the return consistent with a prudent level of risk;
- Ensure that there are sufficient resources to meet the liabilities; and
- Ensure the suitability of assets in relation to the needs of the Fund.

The Fund's funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed, but will take account of future salary and/or inflation increases.

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. It plays an important role in meeting the longer-term cost of funding, and how that cost may vary over time. This benchmark is consistent with the Committee's views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund's liabilities. This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

It is intended that the Fund's investment strategy will be reviewed at least every three years following actuarial valuations of the Fund.

Within each major market the Fund's investment managers will maintain a diversified portfolio of securities through direct investment or via pooled vehicles. An Investment Management Agreement is in place for each investment manager, which sets out the relevant benchmark, performance target and asset allocation ranges, together with further restrictions.

In addition, the Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund's level of funding and liability profile
- The level of expected risk
- Outlook for asset returns

The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation. The Committee has adopted a rebalancing policy which is triggered if the Fund's asset allocation deviates by 5% or more from the strategic allocation.

In order to avoid excessive rebalancing, the assets will not be brought back to the absolute strategic benchmark, but to a position that is approximately half way between the tolerance level and the target allocation. This also takes into consideration that there is a time lag between reporting a variance, and the rebalancing of the funds.

If rebalancing is triggered, 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 Pensions 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 overweight 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.

## Investment of money in a wide variety of investments

### Asset classes

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

The Committee reviews the nature of the Fund's investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

The Fund's target investment strategy is set out below. The table also includes the maximum percentage of total Fund value that it will invest in these asset classes. In line with the Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of Fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

**Table 1: Fund allocation**

Asset class	Benchmark Proportion %	Maximum %
Global Equity	30.0	45.0
Multi Asset	42.5	50.0
Property	6.0	15.0
Infrastructure	2.5	10.0
Bonds & Cash	19.0	25.0
<b>Total</b>	<b>100.0</b>	

At 31 December 2016, the expected return of this portfolio was 4.2%p.a. with an expected volatility of 9.8%p.a. This volatility includes an assumed diversification benefit. In the absence of this diversification, the expected volatility would have increased to 13.2%p.a. Further details on the Fund's risks, including the approach to mitigating risks, is provided in the following section.

### Managers

The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The current manager benchmarks are set out in the Appendix to this Statement. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects the composition of their respective benchmark indices.

## **The approach to risk, including the ways in which risks are to be measured and managed**

The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has a risk management programme in place that aims to help it identify the risks being taken and has put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken.

The principal risks affecting the Fund are set out below. We also discuss the Fund's approach to managing these risks and the contingency plans that are in place:

### **Funding risks**

Asset values may not increase at the same rate as liabilities with an adverse impact on the funding position. A Funding Strategy Statement ("FSS") is prepared every three years as part of the triennial valuation and the Council monitors the Fund's investment strategy and performance relative to the growth in the liabilities at mid-cycle to the triennial valuation.

**Financial mismatch** – The Council recognises that assets and liabilities have different sensitivities to changes in financial factors. To mitigate the risk an investment strategy is set which provides exposure to assets providing inflation protected growth as well as cash flow generating assets that match the Fund's liabilities.

**Changing demographics** – This relates to the uncertainty around longevity. The Council recognises there are effectively no viable options to mitigate these risks and assesses the impact of these factors through the Funding Strategy Statement and formal triennial actuarial valuations.

**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 the Fund's liabilities.

The Committee measures and manages financial mismatch in two ways:

1. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk. This analysis will be revisited as part of the 2019 valuation process. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark.
2. The Committee also assesses risk relative to liabilities by monitoring the delivery of returns relative to a strategic benchmark. The current strategic benchmark is the return on index-linked Government bonds plus 1.8% per annum, which is consistent with the discount rate used by the Actuary to value the Fund's liabilities.

The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

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



## **Asset risks**

**Concentration risk** - This relates to the risk that the performance of a single asset class, investment or manager has a disproportionate influence on the Fund's performance. The Council attempts to mitigate this risk by establishing a well-diversified strategic asset allocation, reviewing the investment strategy regularly and following a regular fund manager review process. The Fund's investment in multi-asset and absolute return mandates increases diversification further, with investment managers able to invest across the full spectrum of the investment universe in order to manage risk.

**Liquidity risk** - Investments are held until such time as they are required to fund payment of pensions. The liquidity risk is being very closely monitored as the Fund matures (i.e. as the level of benefit outgo increases relative to the contributions received by the Fund). The Council manages its cash flows and investment strategy to ensure that all future payments can be met and that sufficient assets are held in liquid investments to enable short term cash requirements to be met.

**Currency risk** – The strategic asset allocation adopted by the Council provides for an element to be held overseas to provide diversification and exposure to different economies. Such investment is however subject to fluctuations in exchange rates with an associated positive or adverse impact on performance. The Council however recognises that it can adopt a long term perspective on investments and consequently is able to absorb short term fluctuations in exchange rates.

**Environmental, social and governance (“ESG”) risks** – The Council recognises that environmental, social and ethical issues have the potential to impact on the long term financial viability of an organisation. The Council monitors both developments within the investment environment and the voting of its appointed managers, supported through annual reporting from the Fund's investment advisers on the voting and engagement activity of its investment managers.

**Manager risk** - Fund managers could fail to achieve the investment targets specified in their mandates. This is considered by the Council when fund managers are selected and their performance is reviewed regularly by the Committee as part of the manager monitoring process.

The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has put in place rebalancing arrangements to ensure the Fund's "actual allocation" does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, as well as property, the Committee has recognised the need for access to liquidity in the short term.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets. Some managers have the discretion to make use of currency exposure within their specific mandates. The Committee will assess the Fund's currency exposures during their risk analysis. Details of the Fund's approach to managing ESG risks are set out later in this document.

The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing a number of managers and making use of passive investment. The Committee assesses the investment managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

### Other provider risks

**Transition risk** - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.

**Custody risk** - The risk of losing economic rights to Fund assets, when held in custody or when being traded.

**Credit default** - This risk relates to the other party(s) in a financial transaction (the counterparty) failing to meet its obligations to the Fund. Where appropriate, the Council has set guidelines with its fund managers and its custodian to limit its exposure to counterparty risk.

**Stock-lending risk** – The possibility of default and loss of economic rights to Fund assets.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

A separate schedule of risks that the Fund monitors is set out in the Fund's Funding Strategy Statement.

### The approach to pooling investments, including the use of collective investment vehicles and shared services

The Fund is a shareholder and a participating scheme in the London CIV Pool. The London CIV is authorised by the FCA as an alternative investment Fund Manager with permission to operate a UK based Authorised Contractual Scheme Fund. The structure and basis on which the London CIV Pool will operate was set out in the [July 2016](#) submission to Government.

The Fund's intention is to invest its assets through the London CIV Pool as and when suitable Pool investment solutions become available. An indicative timetable for investing through the Pool was set out in the 2016 submission to Government. The key criteria for assessment of Pool solutions will be as follows:

- 1 That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund.
- 2 That there is a clear financial benefit to the Fund in investing in the solution offered by the Pool, should a change of provider be necessary.

At the time of preparing this statement, 42.5% of the Fund's assets were invested through the Pool as follows:

Asset Class	Invested through pool	Retained outside pool
Global Equity	15.0%	15.0%
Multi Asset	27.5%	15.0%
Property	-	6.0%
Infrastructure	-	2.5%
Bonds & cash	-	19.0%
<b>Total</b>	<b>42.5%</b>	<b>57.5%</b>

The Fund currently holds 15% of its assets in life funds and intends to retain these outside of the London CIV in accordance with government guidance.

The Fund holds 6% of the Fund in property assets and these will remain outside of the London CIV pool as the cost of exiting this strategy would have a negative financial impact on the Fund. These will be held until such time as a cost effective means of transfer to the Pool is available or until the Fund changes asset allocation and makes a decision to disinvest.

Any assets not currently invested in the Pool will be reviewed at least annually to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money.

### **How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments**

It is recognised that a range of factors, including Environmental, Social and Governance (ESG) factors, can influence the return from investments. The Fund will therefore invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including ESG factors to the extent these directly or indirectly impact on financial risk and return. In making investment decisions, the Fund seeks and receives proper advice from internal officers and external advisers with the requisite knowledge and skills.

The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed.

The Fund expects its external investment managers (and specifically the London CIV through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making.

Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes.

The Fund monitors the activity of its investment managers on an ongoing basis and will review the approach taken annually.

At the present time the Committee does not take into account non-financial factors when selecting, retaining, or realising its investments. The Committee will review its approach to non-financial factors periodically, taking into account relevant legislation and the Law Commission's guidance on when such factors may be considered. Additionally, the Committee monitors legislative and other developments with regards to this subject and will review its approach in the event of material changes.

The Committee understands the Fund is not able to exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

The Fund does not at the time of preparing this statement hold any assets which it deems to be social investments; however, this ISS places no specific restrictions on the Fund in respect of such

investments beyond those of suitability within the Investment Strategy as a whole and compatibility with the Committee's fiduciary duties. In considering any such investment in the future, the Committee will have regard to the Guidance issued by the Secretary of State and to the Law Commission's guidance on financial and non-financial factors.

The Fund in preparing and reviewing its Investment Strategy Statement will consult with interested stakeholders including, but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund.

### **The exercise of rights (including voting rights) attaching to investments**

The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

The Fund's investments through the London CIV are covered by the voting policy of the CIV which has been agreed by the Pensions Sectoral Joint Committee. Voting is delegated to the external managers and monitored on a quarterly basis. The CIV will arrange for managers to vote in accordance with voting alerts issued by the Local Authority Pension Fund Forum as far as practically possible to do so and will hold managers to account where they have not voted in accordance with the LAPFF directions.

In respect of the Fund's investments outside the London CIV, the Committee has delegated the exercise of voting rights to the investment managers on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f). The Committee monitor the voting decisions made by all its investment managers and receive reporting from their advisers to support this on an annual basis.

The Fund will incorporate a report of voting activity as part of its Pension Fund Annual report which is published on the Council website.

At the time of production of the ISS the Fund has not issued a separate Statement of Compliance with the Stewardship Code, but fully endorses the principles embedded in the seven Principles of the Stewardship Code.

In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which invests.

## Appendix: Current manager benchmark allocations

Asset class	Manager	Benchmark and target	Benchmark Allocation %
<b>Equities</b>			<b>30.0</b>
Global Equity	State Street	FTSE All World Equity Index	7.5
Fundamental Equity	State Street	FTSE RAFI All World 3000 Index	7.5
Active Global Equity	Baillie Gifford	MSCI All Countries Index plus 2.5%	15.0
<b>Multi-asset</b>			<b>42.5</b>
Absolute Return	Ruffer	LIBOR+	15.0
Diversified Growth	Baillie Gifford	UK Base Rate plus 3.5%	12.5
Real Return	GMO	OECD CPI g7 plus 5%	15.0
<b>Real assets</b>			<b>8.5</b>
UK Core Property	UBS	IPD All Balanced Property Funds Weighted Average Index	6.0
Local infrastructure	Internal		2.5
<b>Bonds and cash</b>			<b>19.0</b>
Active bonds	Royal London	<ul style="list-style-type: none"> <li>• 50% iBoxx £ non- Gilt over 10 years</li> <li>• 16.7% FTSE Actuaries UK gilt over 15 years</li> <li>• 33.3% FTSE Actuaries Index-linked over 5 years</li> <li>• Plus 1.25%</li> </ul>	19.0
<b>Total</b>			<b>100.0</b>

### **MYNERS Principles for Investment Decision Making**

**The Pensions Committee will regularly review the Fund'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 2017 and is available as an appendix to this statement.

## MYNERS PRINCIPLES

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
1. Effective decision-making		
Administrating authorities should ensure that :		<b>SUMMARY: FULLY COMPLIANT</b>
(a) Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and	1) Administering authorities should have a designated group of elected members appointed to a committee to whom responsibility for pension fund activities have been assigned.	A designated group of elected members, reflecting the political balance of the Council, have been appointed to a Pensions Committee who are responsible for pension fund functions, as specified in the Council's constitution (Part 2).
(b) those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest	2) Roles of the officers with responsibility for ensuring the proper running of the administration authority's and the committee's business should be set out clearly. The rules drawn up should provide a framework for the committee's code of business and include a process for the declaration of conflicts of interest.	Roles of the officers with responsibility for the day to day 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.
Page 267	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 day to day 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: <a href="http://www.havering.gov.uk">www.havering.gov.uk</a> , follow links council, democracy and council, constitution of the council or select the link below. <a href="#">Havering - Library folder - Constitution</a>
	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 no longer required to be specified in the ISS
	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.

### MYNERS PRINCIPLES

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	7) The committee should ensure that it has appropriate skills, and is run in a way designed to facilitate effective decision making. It should conduct skills and knowledge audits of its membership at regular intervals. The 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. Following the establishment of a Local Pension Board (LPB) a joint training strategy will be developed that will incorporate training of Pension Committee members with LPB members, where appropriate.
Page 268	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 maintain 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 Manager provides in house support to members. The Pension Committee is also supported by the Statutory Section 151 and the Council's pension administration and payroll sections. Internal and external resources are considered as part of the business plan.
	11) Allowances paid to elected members should be set out in a published allowances scheme and reviewed regularly.	Members of the Pensions Committee expenses are reimbursed in line with the Council's constitution (Part 6 - 'Members Allowance Scheme')
	12) Employees appointed as member representatives should be allowed adequate time off from normal duties to attend meetings.	Havering Council's conditions of service permits special leave up to a number of specified days for employees who act as a member of a publicly elected body.



### MYNERS PRINCIPLES

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	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 <b>CFO</b> should be given the responsibility for the provision of a training plan and ensure that members are fully aware of their statutory & fiduciary duties.	The Training Plan is incorporated within the Business Plan and includes a log of training undertaken and attendance. Indicative future training plans are also included in the business plan.
	15) The <b>CFO</b> 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.
Page 269	16) Business plan to review the level of internal and external resources the committee needs to carry out its functions.	Medium term Business Plan is considered by the Pensions Committee. The business plan includes the outcome of an internal review of resources, when appropriate.
	17) Administrating Authorities are required to prepare, publish and maintain statements of compliance against a set of good practice principles for scheme governance and stewardship.	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 administrating authority complies with the principles and is reviewed annually.
	18) Administrating authorities are required to publish a Governance Compliance Statement in accordance with CLG guidance.	The Governance Compliance Statement is included within the Annual Report and is available on the Council's website: <a href="http://www.havering.gov.uk">www.havering.gov.uk</a> (under Council, democracy and elections, council budgets and spending, then Pension Fund) or select the link to the pension's page below. <a href="#">Pension Fund page</a>
	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.

## MYNERS PRINCIPLES

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
2. Clear objectives		
		<b>SUMMARY: FULLY COMPLIANT</b>
	The committee should:	As part of the Valuation process consideration is given, with full consultation of the fund's actuary, to :
<b>(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.</b>	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 <b>CFO</b> 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) and can be found on the Councils website, <a href="http://www.havering.gov.uk">www.havering.gov.uk</a> , council, democracy and elections, council budgets and spending, then pension fund or by selecting the link below. <a href="#">Pension Fund page</a>

### MYNERS PRINCIPLES

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	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.
	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 advisors a clear financial and therefore fully measurable investment objective for the fund has been set.
	8) consider when it would be desirable to receive advice based on an asset/liability study and make appropriate arrangements.	The Pensions Committee commission the fund's investment advisor and actuary to undertake an asset/liability study as appropriate, when compiling the investment strategy
	9) evaluate the split between equities and bonds before considering any other asset class. It should state the range of investments it is prepared to include and give reasons why some asset classes may have been excluded. Strategic asset allocations decision should receive a level of attention (and, where relevant, advisory or management fees) that fully reflects the contribution they can make towards achieving the fund's investment objectives.	All asset classes were considered as part of the investment strategy review process and the range of investments are included in the Fund's ISS
	10) have a full understanding of the transaction-related costs incurred, including commissions, and have a strategy for ensuring that these costs are properly controlled.	Transaction costs are disclosed in the statement of accounts.

MYNERS PRINCIPLES		
Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	11) Understanding transaction-related costs should be a clear consideration in letting and monitoring a contract and where appropriate, independent and expert advice should be taken, particularly in relation to transition management.	Understanding transaction costs are considered and where appropriate expert advice would be sought. 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.
<b>3. Risk and liabilities</b>		
		<b>SUMMARY: FULLY COMPLIANT</b>
<b>3.1 In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.</b>	The committee should:	
<b>3.2 These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.</b>	1) set an overall investment strategy for the fund that: represents its best judgement of what is necessary to meet the fund's liabilities given its understanding of the contributions likely to be received from employer (s) and employees; takes account of the committee's attitude to risk, and specifically its willingness to accept underperformance due to market conditions.	A full investment strategy review was carried out following the actuarial valuation results in 2016. 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 ISS and FSS.
	2) ensure that its investment strategy is suitable for its objectives and takes account of the ability to pay of the employers in the fund.	A full investment strategy review was carried out following the actuarial valuation results in 2016. 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 ISS and FSS. 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 ISS.

## MYNERS PRINCIPLES

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	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.	A full investment strategy review was carried out following the actuarial valuation results in 2016. 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 ISS and FSS. 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 ISS.
	4) be aware of its willingness to accept underperformance due to market conditions. If performance benchmarks are set against relevant indices, variations in market conditions will be built in, and acceptable tolerances above and below market returns will be stated explicitly. Benchmarks are likely to be measured over periods of up to seven years.	The Fund in aggregate has a liability related benchmark (strategic benchmark). However for individual mandates, the fund managers have a specific benchmark (tactical benchmark) and a performance target that may be based on broad indices or composites. The targets are shown in the Fund's ISS.
	5) believe that regardless of market conditions, on certain asset classes, a certain rate of return is acceptable and feasible.	Specific benchmarks are considered as part of any investment strategy review and monitored on an on-going basis.
	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.	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 ISS.
	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 <b>CFO</b> should ensure that a risk assessment is reported to the committee, with any appropriate recommendations for action to clarify and/or mitigate the risks.	Specific benchmarks are considered as part of any investment strategy review and monitored on an on-going basis. 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 considered as part of the triennial valuations and mid valuations, however cash flow is monitored monthly and reported to committee quarterly.

## MYNERS PRINCIPLES

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	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.	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 considered as part of the triennial valuations and mid valuations, however cash flow is monitored monthly and reported to committee quarterly. The external auditors' opinion is included in the Pension Fund Annual Report. Internal control audits for pensions are undertaken frequently 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.
Page 274	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 <u>CFO</u> .	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 considered as part of the triennial valuations and mid valuations, however cash flow is monitored monthly and reported to committee quarterly. The external auditors' opinion is included in the Pension Fund Annual Report. Internal control audits for pensions are undertaken frequently by internal auditors and are reported to Audit Committee. Any identified issues would be reported to the Pensions Committee. Audited Internal Control reports are submitted by the Investment Managers and checked by officers for matters of concerns.
	10) The fund's Statement of Investment Principles should include a description of the risk assessment framework used for potential and existing investments.	The external auditors' opinion is included in the Pension Fund Annual Report. Internal control audits for pensions are undertaken frequently 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. The Pension Fund's Statement of Investment Principles includes a description of the risk assessment framework.
	11) Objectives for the overall fund should not be expressed in terms that have no relationship to the fund's liabilities, such as performance relative to other pension funds, or to a market index.	Objectives for the overall fund are set having regard to: the advisability of investing fund money in a wide range of investments; the suitability of particular investments and types of investments and the results of asset/ liability modelling.

### MYNERS PRINCIPLES

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	12) The Annual Report of the pension fund should include an overall risk assessment in relation to each of the fund's activities and factors expected to have an impact on the financial and reputational health of the fund. This could be done by summarising the contents of a regularly updated risk register. An analysis of the risks should be reported periodically to the committee, together with necessary actions to mitigate risk and assessment of any residual risk.	The Pension Fund Annual Report includes an overall risk assessment in relation to each of the fund's activities and includes a copy of the Risk Register. This will be reported periodically to the Pensions Committee.
<b>4. Performance assessment</b>		
		<b>SUMMARY: FULLY COMPLIANT</b>
	<b><u>Investments</u></b>	
a) Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors	The committee should:	
1) Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members	1) explicitly consider, for each asset class invested, whether active or passive management would be more appropriate; where it believes active management has the potential to achieve higher returns, set both targets and risk controls that reflect this, giving managers the freedom to pursue genuinely active strategies; if setting limits on divergence from an index, ensure that they reflect the approximations involved in index construction and selection.	As part of any investment strategy review the Pension Fund considered and adopted its own asset allocation in full consultation with the Fund's investment advisor, it considered and has adopted active and passive management and appropriate targets and risk controls set.
	2) explicitly consider, in consultation with its investment manager (s), whether the index benchmarks are appropriate, and in particular, whether the construction of the index creates incentives to follow sub-optimal investment strategies	Benchmarks are set in agreement with the fund's investment manager (s)



### MYNERS PRINCIPLES

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	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.	Benchmarks are set in agreement with the fund's investment manager (s) Performance monitoring reports are presented to the committee quarterly and covers the latest quarter, rolling one year and three year performance. Where appropriate fund managers will report tracking errors. Each Fund Manager presents their performance reports to the committee on alternate quarters, on each other alternate quarters they meet with officers. Exceptions to this are the pooled managers and the absolute return manager who reports to officers and the committee once a year.
Page 276	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.	Benchmarks are set in agreement with the fund's investment manager (s) Performance monitoring reports are presented to the committee quarterly and cover 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. Exceptions to this are the pooled managers and the absolute return manager who reports to officers and the committee once a year. The asset /liability profile is considered at each triennial valuation.
	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.	In addition to officer reports, the investment advisor 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.



### MYNERS PRINCIPLES

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	8) Investment manager returns should be measured against their agreed benchmark and variations should be attributed to asset allocation, stock selection, sector selection and currency risk, all of which should be provided by an independent performance measurement agency	Each quarter, WM measure fund manager returns against their agreed benchmarks and variations are attributed to asset allocation and stock selection. Relative risk is also measured and the degree of the manager deviating from the benchmark is included in the WM report.
	9) In addition to the overall fund returns the return achieved in each asset class should be measured so that the impact of different investment choices can be assessed (e.g. equities by country, fixed interest by country and type etc.).	The Pension Fund does not measure fund returns on an asset class basis because the focus is on how individual manager performance contributes to the overall fund performance. However the weightings in each asset class are monitored and reported.
	10) The use of peer group benchmarks (such 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.	WM performance returns against peer group benchmarks are used for comparison purposes only.
	11) The mandate represents the instruction to the manager as to how the investment portfolio is to be managed, covering the objective, asset allocation, benchmark, flexibility, risk parameters, performance targets and measurement timescales.	The mandate agreed with the investment manager includes how it is to be managed and covers the objective, asset allocation, benchmark, flexibility, risk parameters, performance targets and measurement timescales.
	<b><u>Advisors</u></b>	
	12) The committee should devise a performance framework against which to measure the cost, quality and consistency of advice received from its actuaries. It is advisable to market test the actuarial service periodically.	Annual service assessments are undertaken for the services provided the Fund's actuary and advisors. They are measured against a set of criteria adopted by the Pension Committee.
	13) It is necessary to distinguish between qualitative assessments (which are subjective) and quantitative reviews which require the compilation of series of data and are therefore more long term by nature.	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.

## MYNERS PRINCIPLES

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	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.	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.
	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	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.
	<b>Decision-making bodies</b>	
	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;	
	17) the objective of the reviews would be to consider whether outcomes were as anticipated, were appropriate, or could have been improved.	
	18) The committee should set out its expectations of its own performance in its business plan. This could include progress on certain matters, reviews of governance and performance and attendance targets. It should include standards relating to administration of the committee's business such as:	The Business Plan sets out the expectations of the committee.
	19) attainment of standards set down in CIPFA's knowledge and skills framework and code of practice; achievement of required training outcomes; achievement of administrative targets such as dates for issuing agendas and minutes.	Achievement of training outcomes are self assessed by the Pensions Committee. Targets such as dates for issuing agendas and minutes are strictly adhered to. Achievement of administrative targets are reported in the Pension Fund Annual report.
	20) This assessment should be included in the fund's Annual Report.	The assessment of the committee expectations and training are included in the Annual Report

### MYNERS PRINCIPLES

Principle	Best Practice Guidance (CIPFA)	Having Position/Compliance
5. Responsible ownership		
		<b>SUMMARY: PARTIALLY COMPLIANT</b>
Administrating authorities should:		
a) recognise, and ensure that their partners in the investment chain adopt, the FRC's UK Stewardship Code	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 ISS, a copy of which is also included in the Pension Fund Annual Report.
b) include a statement of their policy on responsible ownership in the statement of investment principles	2) Responsible ownership should incorporate the committee's approach to long term responsible investing including its approach to consideration of environmental, social and governance issues.	The Pension Committee has considered socially responsible investments and the view has been taken that the funds investment managers to integrate all material financial factors into the decision making process for fund investments.
c) report periodically to scheme members on the discharge of such responsibilities.	3) The committee should discuss the potential for consideration of environmental, social and governance issues to add value, in accordance with its policies on responsible investing, when selecting investment managers and in discussing their subsequent performances.	Over the long term, the Pensions Committee requires the investment mangers to consider, as part of the investment decisions, socially responsible investment issues and the potential impact on investment performance.
	4) Authorities may wish to consider seeking alliances with either other pension funds in general, or a group of local authority pension funds, to benefit from collective size where there is a common interest to influence companies to take action on environmental, social and governance issues e.g. LAPFF.	Over the long term, the Pensions Committee requires the investment mangers to consider, as part of the investment decisions, socially responsible investment issues and the potential impact on investment performance. The ISS 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.
	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.	Over the long term, the Pensions Committee requires the investment mangers to consider, as part of the investment decisions, socially responsible investment issues and the potential impact on investment performance. The ISS is distributed to fund managers so that they are aware of the overall strategy. Fund managers are included in the consultation process if there are major changes.
	6) Where the exercise of voting action is separated from the investment manager, authorities should ensure that the appropriate investment decision is taken into account by reference to those appointed to manage the investments. Authorities may use the services of external voting agencies and advisors to assist compliance in engagement. Measuring effectiveness is difficult but can only be achieved by open monitoring of action taken	Fund managers have been given delegated authority to vote in accordance with their proxy voting policies. Fund Managers report voting activity quarterly and made available for the Pensions Committee to review.

### MYNERS PRINCIPLES

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	7) The committee should ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company that is acceptable within the committee's policy.	Consideration of compliance will need to be given for future appointments. For existing investment managers, where applicable they are compliant or work is well underway to becoming compliant.
	8) The committee should engage with, and consider the implications of, the UK Stewardship Code on a comply or explain basis	The Committee has in the past accepted the principles laid down in the ' Institutional Shareholders Statement of Responsibilities and the policy is set out in the current version of the ISS. The UK Stewardship Code which has superseded this will need to be considered by the committee.
	9) The committee should also ensure that external partners in the investment chain (advisors, consultants, investment managers, etc.) adopt the UK Stewardship Code insofar as it relates to their activities on behalf of the fund.	The UK Stewardship Code is directed to institutional investors (asset owners and asset managers with equity holdings in UK listed companies) and should apply on a comply-or-explain basis. Currently all of the funds asset managers and service providers have adopted the code.
	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 six principles and regularly assess themselves against a comply or explain framework.	The UNPRI is voluntary and applies on a comply or explain basis. All but two of the fund's asset managers have adopted the code. One of these managers is in the advanced stage of completing the documentation and the other manager is actively considering joining in 2016.
<b>6. Transparency and reporting</b>		
		<b>SUMMARY: FULLY COMPLIANT</b>
<b>Administering authorities should:</b>	The committee should:	
<b>a) act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives</b>	1) ensure that its Governance Compliance Statement is maintained regularly. It should actively challenge any non- compliance and be very clear about its reasons for this and be comfortable with the explanations given.	The Governance Compliance Statement is considered and reviewed by the Pensions Committee on a regular basis. Any non-compliance is reported and necessary actions included.
<b>b) provide regular communication to scheme members in the form they consider most appropriate.</b>	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.	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.

## MYNERS PRINCIPLES

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	3) build an integrated approach to its own governance and to communicating this and all other aspects of its work to its stakeholders.	The work of the Pensions Committee is publicly available on the Council's website at <a href="http://www.havering.gov.uk">www.havering.gov.uk</a> , 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, select link below to see the pensions page on the council's website. <a href="#">Pension Fund page</a>
	4) seek examples of good practice from the published reports and communication policies of other pension funds. It should also share examples of its own good practice. The full range of available media should be considered and used as appropriate.	Havering has undertaken partnership working with the London Pension Fund Authority who have developed a website to enable pension sharing best practices across the London Boroughs at <a href="http://www.yourpension.org.uk">www.yourpension.org.uk</a> . Havering Pension Fund is also members of the CIPFA Pensions Network and the London Pension Fund Forum which are good sources of sharing best practices.
	5) compare regularly its annual report to the regulations setting out the required content and, if the report does not fully comply with the requirements, should ensure that an action plan is produced to achieve compliance as soon as possible.	The Pension Fund Annual Report is prepared in accordance with Regulation 57 of the LGPS Regulations 2013 which applied from 1 April 2014. It is also prepared in accordance with guidance published by CIPFA/PRAG in August 2014.
	6) The Funding Strategy (FSS), the Statement of Investment Principles (SIP) and the Governance Compliance Statement are core source documents produced by the fund to explain their approach to investments and risks.	The FSS, the ISS and the Governance Compliance Statement are available on the Council's website at <a href="http://www.havering.gov.uk">www.havering.gov.uk</a> and are included on a dedicated page for the Pension Fund under the link for council and democracy, or select the link below. This page also includes the Pension Fund's Communication Strategy. Where applicable reference to all these documents is made in other publications. <a href="#">Pension Fund page</a>
	With regard to the FSS and SIP, they should:	
	7) contain delegation process and the roles of officers, members, external advisors and managers should be differentiated. The process by which the overall fund allocation process has been determined and include reference to assumptions as to future investment	The policies shows the delegation process and the roles of officers, members, external advisors and how managers are differentiated; the process by which the fund allocation has been determined and includes references to assumptions on future returns; mandates

### MYNERS PRINCIPLES

Principle	Best Practice Guidance (CIPFA)	Havering Position/Compliance
	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.	given to each manager are described, including fees; and implications for risk control.
	With regard to the Governance Compliance Statement it must include:	
	8) information on whether 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.	The Governance Compliance Statement includes information on the administering authorities' delegation process and functions delegated to the Pensions Committee. It also includes the frequency of meetings, terms of reference, structure and operational procedures.
	9) details of the extent to which it complies with CLG guidance. Where the statement does not comply, reasons must be given. A copy of the statement must be sent to the CLG.	The Governance Compliance Statement also includes a table which shows the extent of compliance with DCLG guidance and a copy has been sent to the DCLG.
	With regard to the fund's Communication Strategy it must:	
	10) set out the administering authority's policy on: the provision of information and publicity about the scheme to members, representatives of members and employing authorities; the format, frequency and method of distributing such information or publicity; the promotion of the scheme to prospective members and their employing authorities.	The Communication Statement includes: the 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.

# **London Borough of Havering**

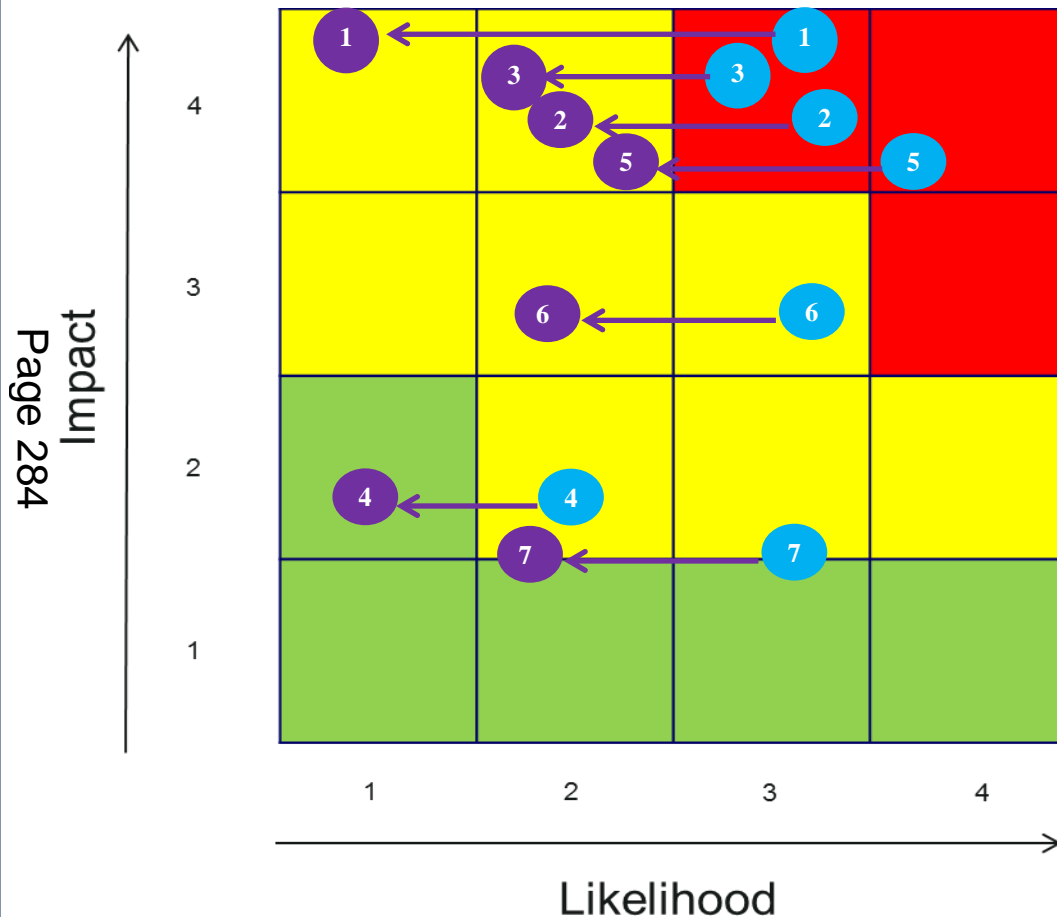
## **Pension Risk Register**

Page 283

JUNE 2015

# 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><b>Causes:</b></p> <ul style="list-style-type: none"> <li>▪ Inappropriate assumptions used by actuary in calculations for valuation</li> <li>▪ Poor quality data provided from LB of Havering</li> <li>▪ Personal data not maintained to a high standard (gaps/incorrect)</li> <li>▪ Actuary's own assumptions are not robust or reflective</li> </ul> <p><b>Effects:</b></p> <ul style="list-style-type: none"> <li>▪ Deficit position worsens</li> <li>▪ Employers pay/ continue to pay incorrect contribution percentages</li> <li>▪ Increase in employer contributions</li> <li>▪ Potential for Council Tax increases</li> <li>▪ More investment risk may be</li> </ul>	Impact 4 Likelihood 3	<p><b>Mitigations in place:</b></p> <ul style="list-style-type: none"> <li>▪ Robust, open tender process in place for appointment of actuary</li> <li>▪ Valuation completed by a qualified professional actuary</li> <li>▪ Some assumptions for valuation dictated by statute</li> <li>▪ Actuarial assumptions are challenged by officers</li> <li>▪ Valuation assumptions subject to External Audit review</li> <li>▪ Local Government benchmarking/comparisons of assumptions</li> <li>▪ Annual review of actuary performance undertaken by Pensions Committee</li> </ul> <p><b>Actions to take forward:</b></p> <p>None identified at this point.</p>	Impact 4 Likelihood 1	Director of Finance (oneSource)

Pension Fund Risk Register						
Ref	Risk Title	Cause & Effect	Inherent Score	Mitigations & Action to take forward	Residual Score	Risk Owner
		<p>taken to bridge a gap that doesn't actually exist</p> <ul style="list-style-type: none"> <li>Potential for a more risk averse Investment Strategy when more risk is required.</li> </ul>				
2	<b>Incorrect / Inappropriate Investment Strategy</b>	<p><b>Causes:</b></p> <ul style="list-style-type: none"> <li>Lack or poor professional investment advice given</li> <li>Investment advice is not taken</li> <li>Lack of understanding and awareness (Pension Committee)</li> <li>Lack of clear risk appetite</li> <li>Based upon inaccurate actuarial valuation</li> </ul> <p><b>Effects:</b></p> <ul style="list-style-type: none"> <li>Pension deficit not reduced</li> <li>Potential for financial loss</li> <li>Growth opportunities are not maximised</li> </ul>	<p><b>Impact</b> 4 <b>Likelihood</b> 3</p>	<p><b>Mitigations in place:</b></p> <ul style="list-style-type: none"> <li>Robust, open tender process in place for appointment of Investment Advisor</li> <li>Investment Advisor performance is annually reviewed by the Pensions Committee</li> <li>Close working relationship is encouraged between actuaries and investment advisor in the development of the investment strategy</li> <li>Investment strategy continually assessed as part of the quarterly monitoring process by the Pensions Committee</li> <li>Liabilities analysed during inter-</li> </ul>	<p><b>Impact</b> 4 <b>Likelihood</b> 2</p>	<b>Director of Finance (oneSource)</b>

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"> <li>▪ Could generate inefficiencies and unintended risks if not fully understood.</li> <li>▪ More investment risk may be taken to bridge a gap that doesn't actually exist</li> <li>▪ Potential for a more risk averse Investment Strategy when more risk is required.</li> <li>▪ Potential for Council Tax increases</li> </ul>		valuation period <b>Actions to take forward:</b> <ul style="list-style-type: none"> <li>▪ Pensions Committee Training / Awareness - working towards full compliance with CIPFA Knowledge and Skills framework</li> <li>▪ Consider using a further independent advisor for challenge to investment advice</li> </ul>		

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	<b>Causes:</b> <ul style="list-style-type: none"> <li>Poor Fund Manager selection</li> <li>Underperformance by fund manager</li> <li>Poor investment advice provided to LB of Havering or not taken</li> <li>Negative financial market impacts</li> <li>External factors / increased market volatility (i.e. 2008)</li> <li>Delays in the implementation of the strategy will reduce the effectiveness of the strategy and may impact growth</li> </ul> <b>Effects:</b> <ul style="list-style-type: none"> <li>Deficit reduction targets are not met</li> <li>Potential for losses to be incurred</li> <li>Increased employer contributions</li> </ul>	<b>Impact</b> 4 <b>Likelihood</b> 3	<b>Mitigations in place:</b> <ul style="list-style-type: none"> <li>Robust, Fund Manager selection process</li> <li>Diverse portfolio to reduce negative effects from market volatility</li> <li>Quarterly monitoring of fund performance and asset class split is presented by the Fund's Investment Advisor at Pension Committee.</li> <li>Fund performance and asset class split is reviewed quarterly by investment advisor/Pensions Committee and officers.</li> <li>Fund Managers attend Pension Committee and officer meetings to present quarterly performance reports</li> </ul> <b>Actions to take forward:</b> <ul style="list-style-type: none"> <li>Pensions Committee</li> </ul>	<b>Impact</b> 4 <b>Likelihood</b> 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
				Training/Awareness – working towards full compliance with CIPFA Knowledge and Skills framework		
4	Failure to comply with legislative requirements	<b>Causes:</b> <ul style="list-style-type: none"> <li>▪ Lack of appropriate skills/knowledge to fulfil requirements</li> <li>▪ Unaware of legislative changes</li> <li>▪ Development of key person dependency</li> <li>▪ Poor/inaccurate interpretation of the regulations</li> <li>▪ Failure/inability to administer the pension scheme appropriately.</li> </ul> <b>Effects:</b> <ul style="list-style-type: none"> <li>▪ Reputational damage</li> <li>▪ Potential for financial penalties</li> <li>▪ Potential for costly legal challenges</li> <li>▪ Increase in employer contributions,</li> </ul>	<b>Impact</b> 2 <b>Likelihood</b> 2	<b>Mitigations in place:</b> <ul style="list-style-type: none"> <li>▪ Financial requirements are subject to external and internal audit</li> <li>▪ Experienced personnel in place</li> <li>▪ Legislative changes are reported to the Pensions Committee where required</li> <li>▪ Active participation in Legislative Consultations where appropriate</li> <li>▪ External and in house training provided where required</li> <li>▪ Member of the CIPFA Pensions Network</li> <li>▪ Participate in the CIPFA Pensions Network/ Peer forums to share knowledge &amp; awareness</li> <li>▪ Statutory policy documents reviewed annually to ensure</li> </ul>	<b>Impact</b> 2 <b>Likelihood</b> 1	<b>Director of Finance (oneSource)</b>  <b>And</b>  <b>Director of Exchequer &amp; Transactional Services (oneSource)</b>

## 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.		compliance with legislation <ul style="list-style-type: none"> <li>Access to specialist pension media sources</li> </ul> <b>Actions to take forward:</b> 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><b>Causes:</b></p> <ul style="list-style-type: none"> <li>▪ Ineffective / lack of succession planning</li> <li>▪ Loss of corporate knowledge/expertise</li> <li>▪ Long term sickness absence</li> <li>▪ Increase in staff turnover</li> <li>▪ Lack of knowledge sharing protocols</li> <li>▪ No knowledge base to store experiences/information</li> <li>▪ Lack of resource (Staffing/financial)</li> <li>▪ ICT failure</li> <li>▪ Poor pension fund administration</li> <li>▪ Poor monitoring of employer financial status</li> <li>▪ Inappropriate investment accounting</li> </ul> <p><b>Effects:</b></p> <ul style="list-style-type: none"> <li>▪ Negative impacts upon service</li> </ul>	<p><b>Impact</b> 4</p> <p><b>Likelihood</b> 4</p>	<p><b>Mitigations in place:</b></p> <ul style="list-style-type: none"> <li>• Bond or guarantee reviews in place and reviewed every three years as part of valuation process</li> <li>• Procedure manual in place for Pension Administration</li> <li>• Attendance at local forum meetings</li> <li>• Attendance at Annual Pension Managers conference</li> <li>• Members of Local Authority Pensions Web</li> <li>• Participates in the CIPFA Pensions Network/ Peer forums to share knowledge &amp; awareness</li> <li>• Attendance at accounting seminars/training</li> <li>• Guidance from external agencies (some will be at a cost)</li> <li>• Pension Fund uses the service of an external custodian to verify asset values and performance</li> </ul>	<p><b>Impact</b> 4</p> <p><b>Likelihood</b> 2</p>	<p>Director of Finance (oneSource)</p> <p>And</p> <p>Director of Exchequer &amp; 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"> <li>▪ Time delays</li> <li>▪ Potential for breach of legislation</li> <li>▪ Financial penalties/ other sanctions</li> <li>▪ Reputational Damage</li> <li>▪ Increased costs due to "buying in" external expertise</li> <li>▪ Employer defaults</li> <li>▪ Qualified opinion on the accounts by external auditor</li> </ul>		<ul style="list-style-type: none"> <li>• Pension Fund accounts subject to external audit.</li> <li>• Continuous pension training</li> <li>• ICT Disaster Recovery in place</li> </ul> <b>Actions to take forward:</b> <ul style="list-style-type: none"> <li>• Succession planning required for key personnel</li> <li>• Review / update procedure manuals</li> <li>• Option being assessed for joint administration with Newham to build resilience</li> <li>• Introduce employer covenants checks</li> <li>• Strengthen process for Bond Reviews</li> <li>• Development of workflow/process management</li> <li>• Development of Training Matrix</li> <li>• Establishment of a statutory Local Pension Board to assist the administering authority in</li> </ul>		



Pension Fund Risk Register						
Ref	Risk Title	Cause & Effect	Inherent Score	Mitigations & Action to take forward	Residual Score	Risk Owner
				effective and efficient governance of the Havering pension Fund		
6	Failure to effectively "sign -up" new employers / members	<p><b>Causes:</b></p> <ul style="list-style-type: none"> <li>▪ Delays in internal processing of documentation</li> <li>▪ Poor communications with stakeholders</li> <li>▪ Lack of understanding by employers with regard to their responsibilities</li> <li>▪ Lack of signed agreements from Employers</li> </ul> <p><b>Effects:</b></p> <ul style="list-style-type: none"> <li>▪ Delays in collection of contribution from the employers/members</li> <li>▪ Impacts cash flow</li> <li>▪ Potential for litigation</li> <li>▪ Employer contribution assessment can become out of date</li> <li>▪ Potential breach of regulations</li> </ul>	<p><b>Impact</b> 3</p> <p><b>Likelihood</b> 3</p>	<p><b>Mitigations in place:</b></p> <ul style="list-style-type: none"> <li>• Escalation to Heads of Service</li> <li>• Script in place to deliver to new Academy employers, with feedback process in place (minuted)</li> <li>• Database maintained on all contact details for LGPS communications.</li> <li>• Monthly schedules of data submitted to Pensions Administration Team</li> <li>• Electronic file of required documents forwarded to new employers</li> </ul> <p><b>Actions to take forward:</b></p> <ul style="list-style-type: none"> <li>• Review of internal processes (particularly legal input)</li> <li>• Completion of TUPE Process</li> </ul>	<p><b>Impact</b> 3</p> <p><b>Likelihood</b> 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"> <li>Incorrect records of new members</li> <li>External Audit Opinion on internal controls</li> <li>Employers liabilities may fall back onto other employers and ultimately local taxpayers.</li> </ul>		Manual <ul style="list-style-type: none"> <li>Completion of Admission Policy manual</li> <li>Template admission agreement awaiting legal clearance</li> </ul>		
7	Pension Fund Payment Fraud	<b>Causes:</b> <ul style="list-style-type: none"> <li>Pension overpayments arising as a result of non-notification in change of circumstances</li> <li>Internal staff fraud</li> <li>Staff acting outside of their levels of authorisation</li> </ul> <b>Effects:</b> <ul style="list-style-type: none"> <li>Financial loss</li> <li>Reputational damage of Pension Administration team and Council</li> <li>Litigation / investigation</li> <li>Internal disciplinary</li> </ul>	Impact 2 Likelihood 3	<b>Mitigations in place:</b> <ul style="list-style-type: none"> <li>Participate in the National Fraud Initiative (bi-annually)</li> <li>Process is in place to investigate return of payment by banks.</li> <li>All pension calculations are peer checked and signed off by senior officer</li> <li>Segregation of duties within the Pensions Administration Team</li> <li>Segregation of duties between Payroll and Pensions Administration Team</li> <li>100% address check undertaken for deferred pensions</li> </ul>	Impact 2 Likelihood 2	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
				<b>Actions to take forward:</b> <ul style="list-style-type: none"> <li>Consider implementation of a monthly mortality check</li> <li>Investigating usage of external agencies (i.e. Western Union) (for overseas payments)</li> </ul>		

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## PENSIONS COMMITTEE

19 SEPTEMBER 2017

Subject Heading:

**PENSION FUND PERFORMANCE  
MONITORING FOR THE QUARTER  
ENDED JUNE 2017**

CLT Lead:

Debbie Middleton

Report Author and contact details:

*Debbie Ford*  
*Pension Fund Manager*  
*01708432569*

Policy context:

[Debbie.ford@onesource.co.uk](mailto: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 30 June 2017

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

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

### SUMMARY

This report provides the Committee with an overview of the performance of the Havering Pension Fund investments for the first quarter to 30 June 2017. The performance information is taken from the quarterly performance reports supplied by each Investment Manager, State Street Global Services Performance Services PLC (formerly known as WM Company) quarterly Performance Review Report and Hymans Monitoring Report.

The net return on the Fund's investments for the first **quarter** to 30 June 2017 was **1.3% (or £10m to £681m)**. This represents an outperformance of **1.0%** against the combined tactical benchmark and represents an outperformance of **3.1%** against the strategic benchmark. The Baillie Gifford (BG) Global Equity Fund was the best performer over the quarter. The BG DGF and GMO Global Real Return Fund both outperformed their respective benchmarks over the quarter whilst the Ruffer Fund

underperformed. The RLAM Fund lost money albeit less than the benchmark reflecting a fall in the value of bond markets over the quarter.

The overall net return of the Fund's investments for the **year** to 30 June 2017 was **13.5%**. This represents an outperformance of **5.0%** against the combined tactical benchmark and an outperformance of **4.7%** against the annual strategic benchmark - this 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 set out in paragraphs 1.1 and 1.2 below.

We measure the individual managers' annual return for the new combined tactical 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 Multi-Asset Manager (Ruffer) (Appendix B).
- 4) Considers the latest quarterly update from the Chair of the Investment Advisory Committee, LCIV (Appendix C)
- 5) Considers the quarterly reports provided by each investment manager.
- 6) Notes the analysis of the cash balances (paragraphs 3.2 refers).

## **REPORT DETAIL**

### **1. Background**

- 1.1 **Strategic Benchmark** - A strategic benchmark has been adopted for the overall Fund of Index Linked Gilts + 1.8% per annum. This is the expected return in excess of the fund's liabilities over the longer term and should lead to an overall improvement in the funding level. 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).

- 1.2 **Tactical 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.
- 1.3 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 Following the results of the 2016 Valuation and in line with regulations the Committee developed a new Investment Strategy Statement (ISS) which replaced the Statement of Investment Principles (SIP). The revised asset allocation targets are shown in the following table and reflect the asset allocation split and targets against their individual fund manager benchmarks:

Table 1: Asset Allocation

Asset Class	Target Asset Allocation (ISS Jan 17)	Investment Manager/ product	Segregated /pooled	Active/ Passive	Benchmark and Target
UK/Global Equity	15.0%	LCIV Baillie Gifford (Global Alpha Fund)	Pooled	Active	MSCI All Countries Index plus 2.5%
	7.5%	State Street Global Asset	Pooled	Passive	FTSE All World Equity Index
	7.5%	State Street Global Asset	Pooled	Passive	FTSE RAFI All World 3000 Index
Multi Asset Strategy	12.5%	LCIV Baillie Gifford (Diversified Growth Fund)	Pooled	Active	Capital growth at lower risk than equity markets
	15.0%	GMO Global Real return	Pooled	Active	OECD CPI g7 plus 3 - 5%

<b>Asset Class</b>	<b>Target Asset Allocation (ISS Jan 17)</b>	<b>Investment Manager/ product</b>	<b>Segregated /pooled</b>	<b>Active/ Passive</b>	<b>Benchmark and Target</b>
		(UCITS)			over a complete market cycle
Absolute Return	15%	LCIV Ruffer	Pooled	Active	Absolute Return
Property	6%	UBS	Pooled	Active	AREF/IPD All balanced property Index Weighted Average
Gilt/ Investment Bonds	19%	Royal London	Segregated	Active	<ul style="list-style-type: none"> <li>• 50% iBoxx £ non- Gilt over 10 years</li> <li>• 16.7% FTSE Actuaries UK gilt over 15 years</li> <li>• 33.3% FTSE Actuaries Index- linked over 5 years. Plus 1.25%*</li> </ul>
Infrastructure	2.5%	No allocation			

\*0.75% prior to 1 November 2015

- 1.5 UBS, SSgA and GMO manage the assets on a pooled basis. Royal London manages the assets on a segregated basis. Both the Baillie Gifford mandates and the Ruffer mandates are managed on a pooled basis and operated via the London Collective Investment Vehicle (LCIV). 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.
- 1.6 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).

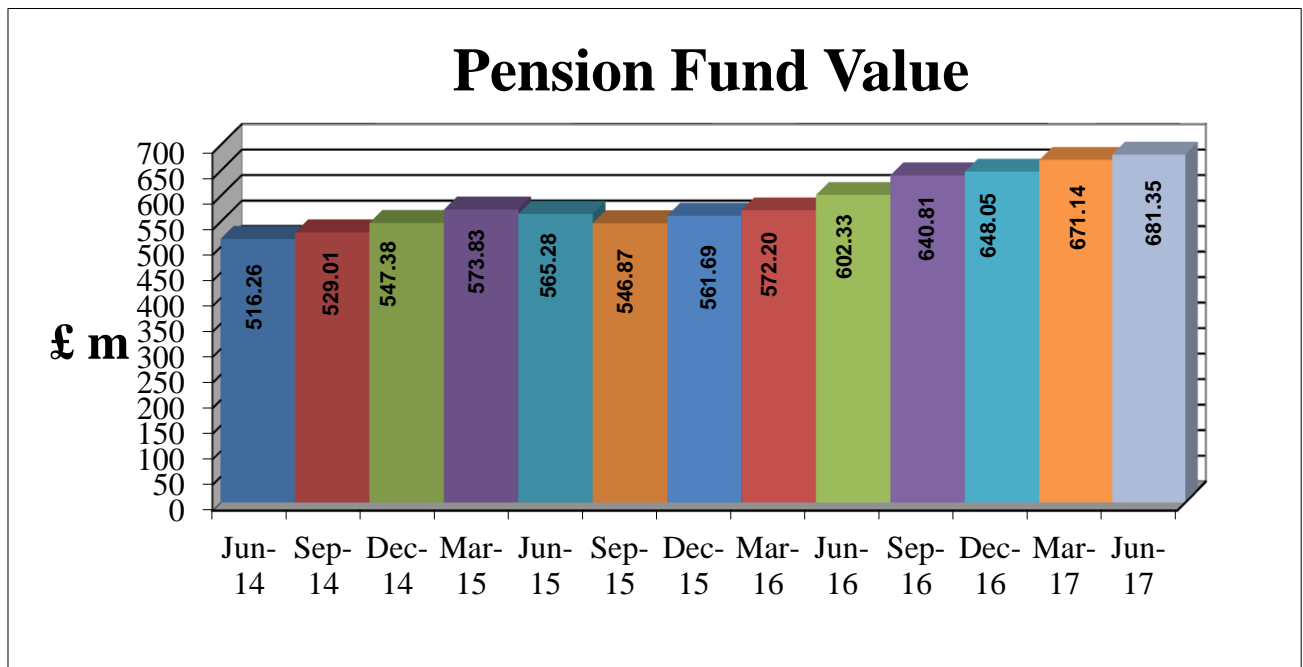


## **2. Reporting Arrangements**

- 2.1 After reviewing the current reporting arrangements at the last Pensions Committee held on the 15 June 2017 it was agreed that only one fund manager will attend each committee meeting.
- 2.2 The Fund Manager attending this meeting is the Multi Asset Manager Ruffer who transitioned over to the London CIV in June 2016. Normally the London CIV would meet with the managers who are part of the London CIV but Ruffer welcomes the opportunity to maintain client relationship with their Local Government investors.
- 2.3 Hyman's performance monitoring report is attached at **Appendix A**.

## **3 Fund Size**

- 3.1 Based on information supplied by our performance measurers the total combined fund value at the close of business on 30 June 2017 was **£681.35m**. 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 £671.14m at the 31 March 2017; an **increase of £10.21m**. The movement in the fund value is attributable to an increase in assets of £8.59m and an increase in cash of £1.62m. The internally managed cash level stands at **£14.62m** of which an analysis follows in this report.



Source: WM Company (Performance Measurers)

- 3.2 An analysis of the internally managed cash balance of **£14.62m** follows:

Table 2: Cash Analysis

<b><u>CASH ANALYSIS</u></b>	<b><u>2015/16</u></b> <b><u>31 Mar 16</u></b>	<b><u>2016/17</u></b> <b><u>31 Mar 17</u></b>	<b><u>2016/17</u></b> <b><u>31 Mar 17</u></b> <b><u>Revised</u></b> <b><u>Final</u></b>	<b><u>2017/18</u></b> <b><u>30 Jun 17</u></b>
	£000's	£000's	£000's	£000's
<b>Balance B/F</b>	<b>-7,599</b>	<b>-12,924</b>	<b>-12,924</b>	<b>-12,770</b>
Benefits Paid	35,048	36,409	36,490	7,425
Management costs	1,754	781	1,358	217
Net Transfer Values	518	2,216	2,151	-764
Employee/Employer Contributions	-42,884	-39,977	-40,337	-9,961
Cash from/to Managers/Other Adj.	306	586	586	1,256
Internal Interest	-67	-91	-94	-24
<b>Movement in Year</b>	<b>-5,325</b>	<b>-76</b>	<b>154</b>	<b>-1,851</b>
<b>Balance C/F</b>	<b>-12,924</b>	<b>-13,000</b>	<b>-12,770</b>	<b>-14,621</b>

3.3 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.

3.4 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.

#### **4. Performance Figures against Benchmarks**

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

Table 3: Quarterly Performance

	<b>Quarter to 30.06.17</b>	<b>12 Months to 30.06.17</b>	<b>3 Years to 30.06.17</b>	<b>5 years to 30.06.17</b>
	%	%	%	%
Fund	1.3	13.5	9.2	10.7
Benchmark	0.2	8.1	7.9	8.8
*Difference in return	1.0	5.0	1.3	1.7

Source: WM Company

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

- 4.2 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:

Table 4: Annual Performance

	<b>Quarter to 30.06.17</b>	<b>12 Months to 30.06.17</b>	<b>3 Years to 30.06.17</b>	<b>5 years to 30.06.17</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Fund	1.3	13.5	9.2	10.7
Benchmark	-1.8	8.4	13.6	10.1
*Difference in return	3.1	4.7	-3.9	0.5

Source: WM Company

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

- 4.3 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.

**Table 5: QUARTERLY PERFORMANCE (AS AT 30 JUNE 2017)**

<b>Fund Manager</b>	<b>Return (Performance)</b>	<b>Benchmark</b>	<b>Performance vs benchmark</b>	<b>Target</b>	<b>Performance vs Target</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Royal London	-0.60	-1.0	<b>0.40</b>	-0.67	<b>0.04</b>
UBS	2.89	2.29	<b>0.60</b>	n/a	<b>n/a</b>
GMO	2.12	0.35	<b>1.77</b>	n/a	<b>n/a</b>
SSgA Global Equity	0.46	0.45	<b>0.01</b>	n/a	<b>n/a</b>
SSgA Fundamental Index	-0.82	-0.81	<b>-0.01</b>	n/a	<b>n/a</b>
LCIV/Ruffer*	-0.45	n/a	<b>n/a</b>	n/a	<b>n/a</b>
LCIV/Baillie Gifford (DGF)*	1.75	n/a	<b>n/a</b>	n/a	<b>n/a</b>
LCIV/Baillie Gifford (Global Alpha Fund)	4.62	0.71	<b>3.91</b>	n/a	<b>n/a</b>

Source: WM Company, Fund Managers and Hymans

- Totals may not sum due to geometric basis of calculation and rounding.
- Performance data reported as per LCIV for those funds under their management.
- \*Not measured against a benchmark

**Table 6: ANNUAL PERFORMANCE (LAST 12 MONTHS)**

<b>Fund Manager</b>	<b>Return (Performance)</b>	<b>Benchmark</b>	<b>Performance vs benchmark</b>	<b>Target</b>	<b>Performance vs Target</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Royal London	6.72	5.42	<b>1.30</b>	6.67	<b>0.05</b>
UBS	5.46	5.99	<b>-0.53</b>	n/a	<b>n/a</b>
GMO	8.43	1.39	<b>7.04</b>	n/a	<b>n/a</b>
SSgA Global Equity	22.84	22.88	<b>-0.04</b>	n/a	<b>n/a</b>
SSgA Fundamental Index	24.27	24.47	<b>-0.20</b>	n/a	<b>n/a</b>
LCIV/Ruffer*	8.61	n/a	<b>n/a</b>	n/a	<b>n/a</b>
LCIV/Baillie Gifford (DGF)*	11.74	n/a	<b>n/a</b>	n/a	<b>n/a</b>
LCIV/Baillie Gifford (Global Alpha Fund)	31.13	21.81	<b>9.32</b>	n/a	<b>n/a</b>

*Source: WM Company, Fund Managers and Hymans*

- Totals may not sum due to geometric basis of calculation and rounding.
- Performance data reported as per LCIV for those funds under their management.
- \*Not measured against a benchmark.

## **5. Fund Manager Reports**

In line with the new reporting cycle, the Committee will only see one Fund Manager at each Committee meeting. Fund Managers brief overviews are included in this section. The full detailed versions of the fund managers' report are distributed electronically prior to this meeting.

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

- a) Royal London last met with the Committee on 14 March 2017 which reviewed performance as at 31 December 16 and with officers on the 11 May 2017 which reviewed performance as at 31 March 2017.
- b) The value of the fund as at 30 June 2017 has reduced by -£0.72m since the March quarter.
- c) Royal London delivered a net return of -0.63% over the quarter, outperforming the benchmark by 0.35%. The mandate is ahead of the benchmark over the year by 1.30% and 0.59% since inception.
- d) Royal London Asset Allocation:
  - i. Credit Bonds (corporate ) 53.4%
  - ii. Index Linked Bonds 28.5%

- |                                  |       |
|----------------------------------|-------|
| iii. Sterling Government Bonds   | 10.5% |
| iv. RL Sterling Extra Yield Bond | 7.1%  |
| v. Overseas Bonds                | 0.2%  |
| vi. Cash                         | 0.3%  |
- e) Relative performance was driven predominantly by duration positioning and asset allocation, reflecting the Fund's overall short duration stance and underweight exposure to government debt, although this was partially offset by a preference for index linked government debt versus conventional gilts. Credit sector selection, in particular the overweight positions in financials and the underweight positions in supranationals, was also positive for performance. The exposures to the Royal London Sterling Extra Yield Bond Fund and global index linked bonds were also beneficial.

## **5.2. Property (UBS)**

- a) UBS last met with the Committee on 14 March 2017 which reviewed performance as at 31 December 2016 and with officers on the 17 August 2016 which reviewed performance as at 30 June 2016.
- b) The value of the fund as at 30 June 2017 increased by £1.12m since the March quarter.
- c) UBS delivered a net return of 2.89% over the quarter, outperforming the benchmark by 0.60%. The mandate is behind the benchmark over the year by -0.53% and behind by 2.00% over 5 years. Return comprises of income attributing 0.9% and capital returns 2.0%.
- d) UBS Sector weighting:
- |                               |       |
|-------------------------------|-------|
| i. Industrial                 | 33.9% |
| ii. Retail warehouse          | 24.3% |
| iii. Office                   | 20.3% |
| iv. Other Commercial Property | 13.1% |
| v. Shopping Centres           | 4.5%  |
| vi. Unit Shops                | 4.9%  |
- e) Performance was primarily driven by the Fund's industrial properties with the active leasing programmes across the portfolio also contributing to performance.

## **5.3. Multi Asset Manager (GMO – Global Real Return (UCITS) Fund)**

- a) GMO last met with the Committee on 15 June 2017 which reviewed performance as at 31 March 17 and with officers on the 3 November 2016 which reviewed performance as at 30 September 2016.

- b) The value of the fund has increased by £2.17m since the June quarter.
- c) GMO have outperformed their benchmark over the 3 month, 12 month and since inception as follows:

Table 7:GMO performance

	3 Months	12 Months	Since inception (13 Jan 2015)
	%	%	%
Net Fund Return	2.12	8.43	1.65
Benchmark	0.35	1.39	1.37
Relative to Benchmark	1.77	7.04	0.28

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

- d) GMO asset Allocation:
  - i. Equities 41.7%
  - ii. Alternative strategies 15.7%
  - iii. Fixed Income 15.1%
  - iv. Cash/Cash Plus 27.5%
- e) Mayor performance drivers came from equities, alternative strategies and fixed income comprising 2.5% of the return but security selection in alternative strategies and fixed income slightly detracted from performance at -0.3%. The fund's cash allocation to cash was a drag on returns over the quarter.

#### **5.4. Passive Equities Manager (SSgA)**

- a) SSgA last met with the Committee on 13 December 2016 which reviewed performance as at 30 September 2016 and with officers on the 11 May 2017 which reviewed performance as at 31 March 2017.
- b) The value of the fund has decreased by -£0.18m since the June quarter.
- c) The SSgA mandate is split into two components, SSgA All World Equity Index sub fund, and the Fundamental Index Global Equity sub fund.
- d) As anticipated from an index-tracking mandate SSgA has performed in line with the benchmark over the latest quarter. The Fundamental Index Global equity sub fund (FTSE RAFI All World 3000 Index) underperformed the All World Equity Index sub fund (FTSE All World Index) by 0.9%. The Index's overweight in Financials and relative exposures in Utilities and Financials were the top contributors, whereas the Index's overweight in Energy, underweights in Information

Technology and Health Care, and relative exposure in Consumer Discretionary were the major detractors.

**5.5. Multi Asset Manager – London CIV (Ruffer)**

- a) This mandate transferred to the London CIV on 21 June 2016.
- b) Ruffer last met with the Committee on 20 September 2016 which reviewed performance as at 30 June 2016 and with officers on the 31 January 2017 which reviewed performance as at 31 December 2016.
- c) The London CIV will now oversee the monitoring and review of performance for this mandate. The London CIV quarterly manager review meeting took place on the 18 July 2017 which reviewed performance as at 30 June 2017 and the review notes are attached to this agenda (Appendix B). However Ruffer has stated that they are happy to continue with the existing monitoring arrangements and meet the Committee to report on its own performance and representatives from Ruffer are due to make a presentation at this Committee, therefore a brief overview of their performance since 31 December 2016 follows.
- d) The value of the fund as at 30 June 2017 decreased by -£0.43m over the last quarter.
- e) Since inception with the London CIV Ruffer returned -0.45% over the quarter, 8.61% over the year and 11.0% since inception. 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.

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

- a) This mandate transferred to the London CIV on the 11 April 2016.
- b) The London CIV will oversee the monitoring and review of the performance of this mandate and representatives from the London CIV last met with the Committee on the 13 December 2016 which reviewed performance as at 30 September 2017.
- c) The London CIV quarterly manager review meetings took place on the 25 July 2017 which reviewed performance as at 30 June 2017 and the review notes have been distributed to members electronically. Officers also attended an investment review pre meeting on the same day at which their performance review was presented.
- d) The value of the Baillie Gifford Global Equities mandate fund increased by £5.16m over the last quarter.

- e) Since inception with the London CIV the Global Alpha Fund delivered a return of 4.62% over the quarter, outperforming the benchmark by 3.91%, delivered a return of 31.13% over the year, outperforming the benchmark by 9.32% and since inception with the London CIV the fund returned 41.23% outperforming the benchmark by 7.70%.

**5.7. 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) The London CIV will oversee the monitoring and review of the performance of this mandate and representatives from the London CIV last met with the Committee on the 13 December 2016 which reviewed performance as at 30 September 2017.
- c) The London CIV quarterly manager review meetings took place on the 25 July 2017 which reviewed performance as at 30 June 2017 and the review notes have been distributed to members electronically.
- d) The value of the Baillie Gifford DGF mandate increased by £1.46m over the last quarter.
- e) The Diversified Growth mandate delivered a return of 1.75% over the quarter, 11.74% over the last year and 16.76% 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.

**5.8 London CIV Update**

- a) The latest quarterly update from the Chair of the Investment Advisory Committee, Ian Williams and LCIV CEO, Hugh Grover on LCIV and the work of the Investment Advisory Committee is attached (Appendix C).

**6. 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.

**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:

Ruffer

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

<b>IMPLICATIONS AND RISKS</b>
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**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.

<b>BACKGROUND PAPERS</b>
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None

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## PENSIONS COMMITTEE

19 SEPTEMBER 2017

**Subject Heading:**

**IMPLEMENTATION OF INVESTMENT  
STRATEGY - UPDATE**

**CLT Lead:**

**Debbie Middleton**

**Report Author and contact details:**

**Debbie Ford  
Pension Fund Manager  
01708432569  
Debbie.ford@onesource.co.uk  
Investment Strategy Implementation**

**Policy context:**

**Financial summary:**

**No direct implications at this stage**

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

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

### SUMMARY

This report includes an update on the progress of the implementation of the Investment Strategy as outlined at the June Pensions Committee meeting.

<b>RECOMMENDATIONS</b>
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That the Committee is asked to:

1. Note the progress report as prepared by the Fund's Investment Advisor, attached as **Appendix A**.
2. Note that the implementation of the multi-asset credit allocation will be undertaken through the London Collective Investment Vehicle (LCIV) as suitable products are developed.
3. Agree that a search for a private debt manager will be undertaken in collaboration with other London Boroughs, and
4. Agree that a search for a real asset strategy will be undertaken in conjunction with Newham, noting that this will allow Havering to provide input on the scope of the search and ensure that its requirements can be met.

<b>REPORT DETAIL</b>
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**1. Background**

- a) The Pensions Committee first considered the investment strategy at the Special Pensions Committee on the 23 January 2017 and adopted the Investment Strategy Statement at the 28 March 2017 committee meeting.
- b) Following an independent 'health check' undertaken by Allenbridge which was submitted to the 25 June Committee meeting, members agreed a set of recommendations that would progress implementation of the investment strategy. A report submitted at the June meeting also included a timeline to deliver the short term priorities.
- c) The attached paper (Appendix A) has been produced by the Fund's Investment Advisor (Hymans) and provides an update on the progression of the implementation of the investment strategy since the last meeting.

<b>IMPLICATIONS AND RISKS</b>
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**Financial implications and risks:**

There are no direct financial implications at this stage

Implementation costs - it is currently too early to provide any detail on what these may be. This will be reported once further progress has been made on the nature of the products taken forward.

Advisory costs – these will ultimately depend on the extent to which the Fund’s investment advisor is involved and the manner in which the private debt mandate is procured – presently an unknown. Hymans Advisory fees to cover what is included in their attached paper will be confirmed once their involvement in the various elements is confirmed.

Costs arising from the implementation of the investment strategy will be met from the Pension Fund.

**Legal implications and risks:**

None arising directly.

**Human Resources implications and risks:**

None arising directly.

**Equalities implications and risks:**

None arising directly

<b>BACKGROUND PAPERS</b>
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None

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