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Havering
LONDON BOROUGH

PENSIONS COMMITTEE AGENDA

7.00 pm	Tuesday 24 July 2018	Committee Room 2 - Town Hall

Members 7: Quorum 3

COUNCILLORS:

Conservative Group (3)

John Crowder (Chairman)
Melvin Wallace (Vice-Chair)
Matt Sutton

Residents' Group (1)

Stephanie Nunn

Upminster & Cranham Residents' Group (1)

Ron Ower

North Havering Residents' Group (1)

Martin Goode

Independent Residents' Group (0)

Vacancy

Trade Union Observers (No Voting Rights) (2)

John Giles, Unison
Andy Hampshire, GMB

For information about the meeting please contact:
Victoria Freeman 01708 433862
victoria.freeman@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:-

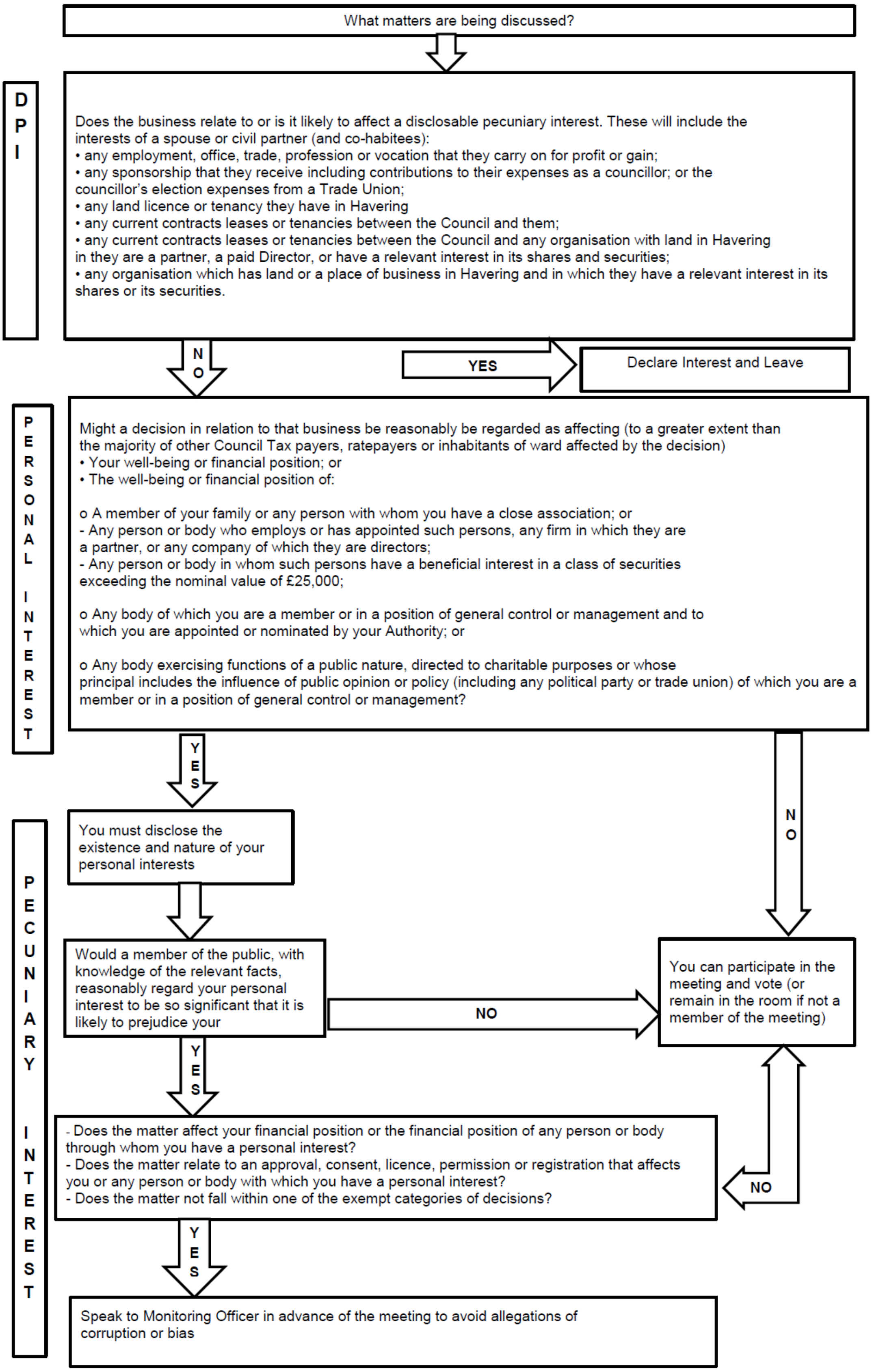
- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing,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

DECLARING INTERESTS FLOWCHART – QUESTIONS TO ASK YOURSELF



AGENDA ITEMS

1 CHAIRMAN'S ANNOUNCEMENTS

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

2 APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS

(if any) - receive

3 DISCLOSURE OF INTERESTS

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

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

4 MINUTES OF THE MEETING (Pages 1 - 6)

To approve as correct the minutes of the meeting held on 13 March 2018 and authorise the Chairman to sign them.

5 LOCAL PENSION BOARD ANNUAL REPORT- YEAR ENDED 31 MARCH 2018 (Pages 7 - 22)

6 PENSION FUND ACCOUNTS 2017-18 (Pages 23 - 56)

7 PENSION FUND ANNUAL REPORT- YEAR ENDED 31 MARCH 2018 (Pages 57 - 250)

8 PROPOSED WORK PROGRAMME FOR THE PENSIONS COMMITTEE (Pages 251 - 254)

9 EXCLUSION OF THE PUBLIC

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

10 PENSION FUND PERFORMANCE - MONITORING FOR THE QUARTER ENDED MARCH 18 (Pages 255 - 292)

11 INVESTMENT STRATEGY - UPDATE - REAL ASSETS IMPLEMENTATION (Pages 293 - 312)

Andrew Beesley
Head of Democratic Services

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MINUTES OF A MEETING OF THE
PENSIONS COMMITTEE
Committee Room 3A - Town Hall
13 March 2018 (7.00 - 9.42 pm)

Present:

COUNCILLORS

Conservative Group	John Crowder (Chairman), Melvin Wallace and Joshua Chapman
Residents' Group	Stephanie Nunn
East Havering Residents Group	Clarence Barrett
UKIP	David Johnson (Vice Chairman)
OBSERVERS:	Andy Hampshire, GMB

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

43 **APOLOGIES FOR ABSENCE AND ANNOUNCEMENT OF SUBSTITUTE MEMBERS**

An apology for absence was received from John Giles, Unison Representative.

44 **DISCLOSURE OF INTERESTS**

There were no declarations made at the meeting.

45 **MINUTES OF THE MEETING**

The minutes of the meeting held on the 12 December 2017, were agreed as a correct record and signed by the Chairman.

46 **PENSION FUND AUDIT PLAN 2017/18**

The Committee received an Audit Plan as issued by Ernst and Young LLP for the work they planned to undertake for provision of an audit opinion on the pension fund accounts for the year ending 31 March 2018.

The Audit Plan for the Pensions Fund would be presented to the Audit Committee on the 14 March 2018.

The Account and Audit Regulations 2015 introduced a change in the statutory deadlines from the 2017/18 financial year. The timetable for the preparation and approval of account would be brought forward with draft accounts needing to be prepared by the 31st May 2018 and audit completion and publication by the 31st July 2018. Officers were confident that the deadline would be met, due to trial completions having been carried out for the past two years.

RESOLVED:

That the Committee noted the report.

47 **BUSINESS PLAN/ANNUAL REPORT ON THE WORK OF THE PENSIONS COMMITTEE 2017/18**

The Committee received a report which sought to set out the work of the Committee during 2017/18 and the plan of work for the forthcoming three years and of which would form the basis of the Pension Fund Business Plan.

It was explained that CIPFA guidance suggested that the Business Plan be submitted to the committee for consideration and proposed the contents of the document, as outlined in the report under paragraph 1.6.

Members attention was brought to Appendix A which detailed the Training Strategy for the London Borough of Havering Pension Fund. It was explained that if there were a change in Committee membership following the local elections in May 2018, the training plan would be resubmitted once the new committee had been established.

Maintaining expertise, experience and knowledge was a key focus for the committee in order to meet the qualitative test under Markets in Financial Instrument Director (MiFID 11) and firms would undertake an assessment of the expertise, experience and knowledge of the local authority and its pension fund committee in order to be reasonably assured that they were capable of making their own investment decisions and have an understanding of the risks involved before a firm would permit election to professional status. It was noted that all requests for election had been granted for existing investment service providers.

RESOLVED:

The Committee noted the report, which was agreed by the Chair of the Committee in advance of the meeting and which would be referred to the Full Council meeting for consideration.

48 **INVESTMENT MANAGEMENT CONSULTANCY SERVICES - EXTENSION TO EXISTING CONTRACT**

The Committee received a report which informed of the decision to extend the investment Adviser contract for a further year until 31 March 2019.

The current extended contract would expire on the 31 March 2018 and had the option to extend for a further 12 months.

Following the Committees decision on the 21 November 2017, a procurement and tendering process had commenced. Subsequently however, the London CIV published a consultation which aimed to clarify its purpose and set out the direction of its future strategy. In view of this announcement, officers in consultation with the Section 151 officer believed that the best outcome at this time was to defer the procurement of an Investment Advisor until 2019 to benefit from service continuity.

RESOLVED:

That the Committee noted the approval of a one year extension of the existing contract for the provision of Investment Advice with Hymans Robertson LLP for the period April 2018 to March 2019.

49 **LONDON CIV - CONSULTATION ON PROPOSED STRATEGY**

Members were presented a report on the London CIV consultation on their proposed strategy. It was explained that a governance review highlighted a number of issues and indicated a need for the LCIV to both change its governance arrangements and clarify its purpose and future strategy. In response, LCIV initiated a consultation on it future strategy and aims including a number of proposals on its governance arrangements and longer term strategy.

Members expressed disappointment with the consultation process and suggested that further information and clarification on the Investments element be undertaken.

During the presentation of the report, officers highlighted the proposed governance and client engagement that would take place (pages 81 and 82 of the report refers).

The LCIV set out three flexible mandates:

- Low Cost: Passive Equity Funds and a Liability Aware Fund.
- Basic: Blended Investment Mandates established across asset classes with LLAs selecting fixed amounts in each according to their Strategic Asset Allocation.
- Enhanced: Blended and Low Cost Investment Mandate established with LCIV providing tactical asset allocation as opportunities arise. LLAs would be able to tailor the amount of discretion afforded to the LCIV in their individual IMA.

Members expressed concern regarding the LCIV’s direction of travel for local funds and its decision making on its strategic asset allocation. . Officers stated that the LCIV was there to deliver the Fund’s strategic asset allocation and that we will not know for sure whether this can be delivered until the LCIV's proposed client engagement has run its course.

It was noted that neither the Real Asset Management mandate nor Private Debt mandate is presently available from the LCIV.

Members agreed that the Pension Fund would consider the impact of ESG on its investment strategy. It was advised that ESG training would be delayed until views were sought after the May 2018 elections, before making any ESG changes to the Investment Strategy.

Larissa Benbow, Head of Fixed Income, LCIV, was invited to address the committee, during which she provided an update on the CIV to members and outlined the London CIVs priorities for 2018.

Members discussed in depth the LCIV's investment proposal Ms Benbow was able to clarify a number of points from their consultation paper.

During discussion, members raised concern regarding the turnover of executive staff at the LCIV.

RESOLVED: That

i) The Committee noted and provided comment on the content of the report.
ii) The Committee noted the Chairman's response to the LCIV questionnaire on their proposals on its governance arrangements and longer term strategy.

50 **EXCLUSION OF THE PUBLIC**

The Committee resolved to exclude 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.

There were no members of the public or press present for the duration of the meeting.

51 **PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED DECEMBER 2017**

The Committee received an overview of the performance of the Havering Pension Fund investments for the quarter to 31 December 2017.

The net return on the Fund's investments for the quarter to 31 December 2017 was 3.2% (or £22m to £715m). This represented an outperformance of 0.9% against the combined tactical benchmark and under performance of 0.7% against the strategic benchmark.

Based on information supplied by the council's performance measures, the total combined fund value at the close of business on 31 December 2017 was £714.81m.

Simon Jones, Senior Investment Consultant, presented the quarterly monitoring report on behalf of Hymans Robertson LLP.

Richard Nelson, Senior Credit Fund Manager, and Rob Nicholson, Client Relationship Director, Royal London, presented an overview of London Borough of Havering's Pension Fund asset allocation.

The Committee thanked the representatives of Hymans Robertson LLP and Royal London, for their presentations.

Resolved: That

- **i) The summary of the performance of the Pension Fund within the report, be noted.**
- **ii) The Committee considered Hymans performance monitoring report and presentation (Appendix A – Exempt).**
- **iii) A presentation from the Fund's Bonds Manager (Royal London), be received (Appendix B – Exempt).**
- **iv) The Committee considered the latest quarterly update from the Chair of the Investment Advisory Committee, LCIV (Appendix C – Exempt).**
- **v) The Committee considered the quarterly reports provided by each investment manager.**
- **vi) The analysis of the cash balances, be noted.**

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Chairman

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Havering
LONDON BOROUGH

PENSION COMMITTEE **24th July 2018**

Subject Heading:	**LOCAL PENSION BOARD ANNUAL REPORT- YEAR ENDED 31 MARCH 2018**
SLT Lead:	**Sarah Bryant**
Report Author and contact details:	***Mark Holder*** ***Chairman Local Pension Board*** ***01708431038*** **Mark.Holder@havering.gov.uk**
Policy context:	
Financial summary:	

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 Local Pension Board Annual Report 2017/18.

RECOMMENDATIONS

1. The committee to note the 2017-2018 Local Pension Board Annual Report.

2. The committee agree the Local Pension Board Annual Report will be published electronically.

REPORT DETAIL

Background

1. The Local Pension Board Annual report 2017/18 has been produced in line with the guidance issued by the Scheme Advisory Board section 8.6.

2. The report details activities for the past year and focusses on the planning and development of a robust action plan for the board with relevant training and development for the coming/future year.

IMPLICATIONS AND RISKS

Financial implications and risks: **NONE**

Legal implications and risks:

There are no apparent legal implications in noting the Report of the Pension Board.

Human Resources implications and risks: **NONE**

Equalities implications and risks: **NONE**

LONDON BOROUGH OF HAVERING

LOCAL PENSION BOARD

ANNUAL REPORT

2017/18

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Chairman's opening remarks.

It is my pleasure, as the Chairman of Havering Local Pension Board, to introduce the Board's 2017/18 Annual Report. The Local Pension Board was established in 2015 following changes in the Public Service Pensions Act 2013. The Board's task is to assist the council by making sure it is administering the Local Government Pension Scheme (LGPS) effectively and efficiently and is compliant with the law.

The Board met formally three times from April 2017 to March 2018 with the fourth meeting rolling into April 2018 due to a cancellation. The board members attended training and pension workshops during this period and spent time reviewing documents in preparation for board meetings. A new work plan was agreed at the start of the year and board members have worked through the work plan which covers a range of topics. Details and information of which are outlined in this report.

I would like to thank officers for their hard work and support in researching and preparing information for the discussions at pension board meetings and the on-going support and guidance for the board.

The pension environment is continually changing and the Board endeavours to keep abreast of these changes and is working hard to support and assist the council's pension administration in maintaining the high standards in the administration of the Fund.

The Board continues to develop its knowledge and skills and is actively working through the items on the work plan.

Mark Holder
Chair of the Local Pensions Board
18th June 2018

Introduction

1. Local Pension Boards are constituted entirely under the Public Service Pensions Act 2013 and are not local authority committees.

2. The role of each Board is to help ensure each scheme complies with governance and administration requirements. They may have additional duties, if scheme or other regulations so specify.

3. Pension Boards need to have an equal number of employer and member representatives. They may also have other members, such as independent experts. All Pension Board members have a duty to act in accordance with scheme regulations and other governing documents.

4. Scheme regulations (or scheme-specific guidance) may provide further detail on the scope of the Pension Board and how it should operate, for example how many Pension Board members need to attend a meeting to be quorate and how often it should meet.

5. This Annual Report has been established to ensure Pensions Committee are aware of work undertaken during the year and the future work plans.

Role of the Local Pension Board

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

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

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

Membership of the Board

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

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

Substitute members are not permitted.

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

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

David Holmes and Virpi Raivio are appointed as Employer representatives and Mark Holder (Chairman) and Anne Giles as Scheme Member representatives.

Board Meetings

The Board met on three occasions up to the end of the financial year.

Meetings took place on 27 June 2017 (Annual Meeting), 26 September 2017, and 17 January 2018. The fourth meeting was cancelled in March 2018 and took place on the 24th April 2018.

Matters discussed by the Board

The following matters have been discussed by the Board:

- Pension training needs
- Tendering process for fund managers
- Pooled investments (London CIV)
- Annual report 2016/17
- Review of work plan
- Fair Deal and TUPE Transfer
- Pension regulator and scheme advisory board compliance checklist
- Administration key performance indicators
- Support for the board
- Pensions administration service changes
- Liability insurance
- Details of the Board's budget
- Pensions Committee meeting updates
- New arrangements with Local Pensions Partnership (LPP) to provide the Pensions Administration function for LBH
- Performance of the Pensions Administration Service

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

Training

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

To summarise:

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

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

All members have undertaken a training needs analysis.

One area of training has been planned for the future for board members which is detailed in the shaded area at the end of Appendix 1. Further training events will be organised once the training requirements of the pension committee have been assessed due to changes from the recent election.

Financial Position

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

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

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

The estimated budget agreed by the Administering Authority's Statutory Section 151 officer and costs incurred for 2017/18 are shown in the following table:

Description	**2015/16 Estimate £**	**2015/16 Actual £**	**2016/17 Estimate £**	**2016/17 Actual £**	**2017/18 Estimate £**	**2017/18 Actual £**	**2018/19 Estimate £**
Members Allowance & Travelling	3,000	1,346	3,000	1,189	3,000	1,569	3,000
Support Services – Internal Recharge	8,000	880	8,000	920	8,000	820	8,000
Printing, Stationary & Office Expenses	3,400	3,348	3,400	0	3,400	0	3,400
Communication & Computing	500	0	500	0	500	0	500
Professional Advice	10,000	0	10,000	0	10,000	0	10,000
*****Training & Development	10,000	6,038	10,000	5,550	10,000	2,650	10,000
Total	**34,900**	**11,612**	**34,900**	**7,659**	**34,900**	**5,039**	**34,900**

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

Budgets have been set to cover a four year period to reflect the period of term that the LPB appointees will serve. 2017/2018 is the third operational year of the LPB. The LPB is accountable to the Administering Authority and prior approval will need to be sought from the Section 151 officer to amend budgets. The cost for the LPB is met from the Havering Pension Fund and approved by the Administering Authority's Statutory Section 151 Officer.

The Future

A new 18/24 month work plan has been agreed for 2017/18 and 2018/19.

This will cover the following areas:

1. Finalise the review of fair deal and TUPE policies and have a report on how the current changes, i.e. introduction of multi academy trusts and college reorganisation would impact on the Pension Scheme.
2. Ensure the pension regulator and scheme advisory board compliance checklist has been completed and is reviewed regularly.
3. Ensure a process is in place to make any items that have been identified as being non-compliant or partially compliant from the pension regulator and scheme advisory board compliance checklist are made fully compliant within agreed and acceptable timescales.
4. Request that the scheme manager provide evidence that the Administering Authority is meeting the pension regulators requirements in any areas that we require further assurance.
5. Review key performance indicators relating to the administration of the scheme and ensure an action plan is in place for indicators that are not meeting the agreed target.
6. Monitor progress of service transition of Pensions Administration to Local Pensions Partnership (LPP) and ensure that any changes to scheme administration are well planned and documented.
7. Review performance and statistical information and that there are processes in place to ensure that there is no poor service levels in any area of scheme management.
8. Ensure the scheme manager fully plans for any new legislation such as the General Data Protection Regulation (GDPR) which comes into force on the 25 May 2018 and we are compliant with all aspects of new legislation.
9. Report regularly to the pensions committee on the work of the pension board.
10. Ensure good communication and engagement between Pensions Board and Pensions Committee.

The Work Plan will be a live document and subject to change as necessary with a formal review at least every two years.

APPENDIX 1 – LPB MEMBERS TRAINING ALL YEARS

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
29 June 2015	Hymans – Fund Actuary delivered training: Why we are here Roles & Responsibilities Knowledge & Skills Brief overview of LGPS	Hyman's Office – One London Wall	KSF 1	£3,500 (shared equally between LBH and Redbridge)	Justin Barrett – Employer rep Mark Holder - Member rep Marshajane Thompson – Member rep David Holmes – Employer Rep
12 Aug 2015	Officers - Local Pension Board Induction covered: ○ Brief overview of the havering Pension fund ○ How the scheme is funded ○ Governance Structure ○ Key parties in the Fund ○ Investment Monitoring ○ Strategy documents ○ Valuation ○ LPB reporting requirements	Town Hall – Prior to Local Pension Board meeting	KSF 1,2,4,5 & 6	Officer Time	Mark Holder - Member rep Justin Barrett – Employer rep (chair)
6 January 2016	Hymans – Fund's Actuary delivered TUPE Transfer Training, covered: • What is TUPE • Pension Protection & Regulations • Admission bodies documents & securities • Cessations	Town Hall – prior to Local Pension Board meeting	KSF 6	£3,500	Mark Holder - Member rep Justin Barrett – Employer rep (chair)

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
25 April 2016	Pensions & Lifetime Savings Academy (PLSA) covered: • Governance Structure of LGPS • TPR approach to governance & Admin • Purpose & Responsibilities of National & Local Pensions Boards	PLSA Offices, London	KSF 1	£450.00 + VAT	Mark Holder – Member Rep
15 June 2016	Pensions & Lifetime Savings Academy (PLSA) covered: • Governance Structure of LGPS • TPR approach to governance & Admin • Purpose & Responsibilities of National & Local Pensions Boards	PLSA Offices, London	KSF 1	£900.00 + VAT	Marshajane Thompson – Member Rep Justin Barrett – Employer Rep (chair)
7 October 2016	Eversheds – LGPS: New Challenges, covered: • Update on LGPS Pooling • New Fair Deal update • 2016 Valuations • Legal, Investment & Brexit update	Eversheds, one Wood Street, London	KSF 1 & 6	£100?	David Holmes – Employer Rep

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
28 November 2016	Pensions & Lifetime Savings Academy (PLSA) covered: • Governance Structure of LGPS • TPR approach to governance & Admin • Purpose & Responsibilities of National & Local Pensions Boards	PLSA Offices, London	KSF 1	£450.00 + VAT	David Holmes – Employer Rep
13 December 2016	Hymans - Joint training with Pensions Board - Valuation 2016 Results covered: • 2016 Valuation framework • Valuing liabilities • Actuarial assumptions • 2016 results • What changed since 2013	Havering Town Hall	KSF 6	£2,000	Mark Holder – Member rep David Holmes – Employer Rep
23 January 2017	Hymans - Joint Training with Pensions Board – Investment Strategy Training covered; • New investment Regulation 2016 • Overview of ISS/DCLG Guidance	Havering Town Hall	KSF 5	£2,100	Justin Barrett – Employer Rep (chair) Mark Holder – Member Rep David Holmes – Employer Rep Anne Giles – Member Rep

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
	• What changed between SIP/ISS • Asset allocation rebalancing • Investment strategy evolution • Investment objectives • Overview of UK Stewardship code • Credit Strategies				
1 February 2017	London CIV Stewardship Seminar	Guildhall, City of London	KSF1	Free	Mark Holder – Member Rep
1 March 2017	LCIV Annual conference including fund manager sessions		KSF4/5	Free	Mark Holder – Member Rep
28 June 2017	CIPFA & Barnett Waddingham – Local Pension Boards Two years on	Cheapside House, 138 Cheapside, London EC2V		£175	David Holmes - Employer Rep Mark Holder – Member Rep Anne Giles – Member Rep
3 November 2017	Association of Colleges	Webinar		FREE	David Holmes – Employer Rep

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
6 November 2017	CIPFA & Barnett Waddingham – LPB Autumn Seminar covers: Latest LGPS updates Reporting Breaches of Law Investment Regulations & related key policies	Cheapside House, 138 Cheapside, London EC2V		£125	Ann Giles – Member Rep Virpi Raivio- Employer Rep
21 November 2017	Hymans – Actuary- Admissions and TUPE policies	Havering Town Hall	KSF 6	Part of Actuarial contract	Mark Holder – Member Rep Anne Giles – Member Rep Virpi Raivio – Employer Rep
12 December 2017	Officers - Local Pension Board Induction covered: ○ Brief overview of the havering Pension fund ○ How the scheme is funded ○ Governance Structure ○ Key parties in the Fund ○ Investment Monitoring ○ Strategy documents ○ Valuation LPB reporting requirements	Central Library	KSF 1,2,4,5 & 6	Officer Time	Ann Giles (TBC) Virpi Raivio (TBC)
26 February 2018	CIPFA and Barnett Waddingham LGPS Local Pension Board Members Spring Seminar	Cheapside House, 138 Cheapside, London EC2V 6BW	KSF 1,2a	£125	Mark Holder – Member Rep and Chair Anne Giles – Member Rep Virpi Raivio – Employer Rep

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
27 June 2018	CIPFA and Barnett Waddingham – Local Pension Boards three years on	Cheapside House, 138 Cheapside, London EC2V 6BW		£175	Mark Holder – Member Rep and Chair Anne Giles – Member Rep Virpi Raivio – Employer Rep
Various	Pensions Regulator Public Service Toolkit: • Conflicts of interest	Online	KSF 1		Mark Holder – Member Rep Virpi Raivio – Employer Rep Anne Giles - Member Rep
	• Managing Risks and internal controls	Online	KSF1		Mark Holder – Member Rep Virpi Raivio – Employer Rep Ann Giles – Member Rep
	• Maintaining accurate member data	Online	KSF1		Mark Holder – Member Rep Virpi Raivio – Employer Rep Ann Giles – Member Rep
	• Maintaining member contributions	Online	KSF2		Mark Holder – Member Rep Virpi Raivio – Employer Rep Ann Giles – Member Rep
	• Providing information to members and others	Online	KSF2		Mark Holder – Member Rep Virpi Raivio – Employer Rep Ann Giles – Member Rep
	• Resolving internal disputes	Online	KSF2		Mark Holder – Member Rep Virpi Raivio – Employer Rep
	• Reporting Breaches of Law	Online	KSF1		Mark Holder – Member Rep Virpi Raivio – Employer Rep

Shaded area: Current planned training for 2018

Havering
LONDON BOROUGH

PENSION COMMITTEE

Subject Heading:	**PENSION FUND ACCOUNTS 2017/18**
CLT Lead:	**Jane West**
Report Author and contact details:	***Debbie Ford*** ***Pension Fund Accountant*** ***01708432569*** ***Debbie.ford@onesource.co.uk***
Policy context:	Pension Fund accounts to be noted by the Pensions Committee prior to agreement by the Audit committee
Financial summary:	This report comments on the Pension Fund Accounts for the year ended 31 March 2018

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 31st March 2018 showing the unaudited accounts of the Havering Pension Fund as at that date.

RECOMMENDATIONS

That the Committee consider and note the Havering Pension Fund unaudited Accounts as at 31st March 2018 and consider if there are any issues that need to brought to the attention of the Audit Committee.

REPORT DETAIL

1 Background

1.1. The Council's Statement of Accounts for 2017/18 is currently being audited and will be presented to the Audit Committee for agreement on the 25th July 2018. 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 brought to the members attention at the meeting. 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 There have been no key content changes required by CIPFA for the 2017/18 accounts that were not already covered in 2016/17 and continued in 2017/18.

1.5 Key movements to note from the 2017/18 accounts are:

- The Net Assets of the Fund have increased to **£707m** for 2017/18 from £671m in 2016/17, a net increase of £36m.
- The net increase of £36m is compiled of a change in the market value of assets of £27m, investment income of £7m and net additions of cash of £4m, offset by management expenses of (£4m). Further details are included within the Fund Account and Net Asset Statement included in this report.

- Passive equity mandates held with State Street Global Assets (SSGA) were transferred to Legal & General Investment Management (LGIM).

1.6 A copy of the audited Pension Fund Accounts and the auditors' opinion will be included in the 2017/18 Pension Fund Annual Report. The statutory publication date for the 2017/18 Pension Fund Annual Report is 1 December 2018.

1.6 The 2017/18 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.

IMPLICATIONS AND RISKS

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 10 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 31 July.

2017/18 was the first year that the statutory deadlines changed in that the Accounts are required to be prepared for audit by the 31 May (previously 30 June) and the audit is to be concluded by 31 July (previously 30 September). The Pension Fund accounts were submitted to the Councils auditors within the specified time scales.

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. There is a risk that non completion of the Annual report could delay the audit conclusion of the Statement of Accounts. The Council has brought forward the completion of the annual report to avoid delays in the completion of the audit.

The planned cost of a separate audit opinion for the 2017/18 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.

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.

Pension Fund

Pension Fund Account for the year ended 31 March 2018

2016/17 £'000		Notes	2017/18 £'000
	Dealings with members, employers and others directly involved in the fund		
39,293	Contributions receivables	7	41,639
1,623	Transfers in from other pension funds	8	2,654
40,916			44,293
(36,409)	Benefits	9	(36,486)
(3,856)	Payments to and on account of leavers	10	(3,807)
(40,265)			(40,293)
651	Net additions (withdrawals) from dealings with members		4,000
(3,925)	Management expenses	11a	(4,304)
(3,274)	Net additions/(withdrawals) including fund management expenses		**(304)**
	Returns on investments		
6,480	Investment income	12	9,340
(22)	Taxes on Income	13	-
95,254	Profit and losses on disposal of investments and changes in the market value of investments	14a	26,693
101,712	**Net returns on investments**		**36,033**
98,438	Net increase (decrease) in the net assets available for benefits during the year		**35,729**
572,941	Opening net assets of the Fund at start of year		671,379
671,379	**Closing net assets of the Fund at end of year**		**707,108**

Net Asset Statement for the year ended 31 March 2018

£'000			£'000
658,621	Investment Assets	14	689,295
(113)	Investment Liabilities	14	-
658,508	**Total net investments**		**689,295**
13,136	Current Assets	21	18,141
(265)	Current Liabilities	22	(328)
671,379	**Net assets of the Fund available to fund benefits at end of the reporting period**		**707,108**

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 Statutory Section 151 officer.

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 2017/18 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 2017/18 six new employers joined the fund and one ceased.

There are 46 employer organisations with active members within the Havering Pension Fund including the Authority.

The membership profile is detailed below:

31-Mar-17		31-Mar-18
*41	**Number of employers with active members**	**46**
	Number of employees in scheme	
4,521	Havering	4,746
1,596	Scheduled bodies	1,745
100	Admitted bodies	71
6,217	**Total**	**6,562**
	Number of pensioners and dependants	
5,659	Havering	5,769
403	Scheduled bodies	462
39	Admitted bodies	16
6,101	**Total**	**6,247**
	Deferred pensioners	
5,129	Havering	5,221
1,005	Scheduled bodies	1,115
62	Admitted bodies	48
6,196	**Total**	**6,384**
18,514	**Total number of members in pension scheme**	**19,193**

*Restated from 39 to 41 due to late identification of new member data.

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 2018. Employer contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2016. Current employer contribution rates range from 17.5% to 38.2% of pensionable pay.

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 1/49th. 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.

2. Basis of Preparation

The Statement of Accounts summarises the fund's transactions for the 2017/18 financial year and its position at year end as at 31 March 2018. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting* in *the United Kingdom* 2017/18 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.

(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 fir 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 it 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.

Accounting Standards issued but not yet adopted

At the balance sheet date, the following new standard and amendment to existing standards had been published but not yet adopted by the Code of Practice on Local Authority Accounting in the United Kingdom:

IFRS9 Financial Instruments - introduces changes to the classification and measurement of financial assets, and a new "expected credit loss" model for impairing financial assets. The impact will be to reclassify assets currently classified as loans and receivables to amortised cost. It is not expected that the impact of the new standard to have a material impact and the Fund does not at this stage anticipate any adjustments for impairments.

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 2018 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: 0.5% decrease in the real discount rate could result in an increase of 9% 0.5% increase in salary increase rate could result in an increase of 1% 0.5% increase in the pension increase rate could result in an increase of 8%	 96 11 83

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), 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

2016/17 £'000		2017/18 £'000
	Employees' contributions	
	Normal:	
5,325	Havering	5,292
1,425	Scheduled Bodies	1,533
117	Admitted Bodies	92
	Additional contributions:	
24	Havering	19
19	Scheduled bodies	4
6,910	**Total Employees' Contribution**	**6,940**
	Employers' contributions	
	Normal:	
10,840	Havering	12,608
5,675	Scheduled bodies	6,073
334	Admitted bodies	360
	Deficit funding:	
14,157	* Havering	14,303
	Augmentation	
1,130	Havering	715
247	Scheduled bodies	633
-	Admitted bodies	7
32,383	**Total Employers' Contributions**	**34,699**
39,293	**Total Contributions Receivable**	**41,639**

*The £14.30m deficit funding in 2017/18 reflects additional contributions made by the Authority to the Pension Fund. It consists of £9.65m secondary contributions and £4.65m in voluntary planned contributions.

By authority

2016/17 £'000		2017/18 £'000
31,476	Havering	32,937
7,366	Scheduled bodies	8,243
451	Admitted Bodies	459
39,293	**Total Contributions Receivable**	**41,639**

8. Transfers in from Other Pension Funds

2016/17 £000		2017/18 £000
1,623	**Individual transfers**	2,654
1,623	**Transfers In from Other Pension Funds**	**2,654**

9. Benefits Payable

By category

2016/17 £000		2017/18 £000
	Pensions	
27,487	Havering	28,306
1,091	Scheduled Bodies	1,169
588	Admitted Bodies	637
29,166	**Pension Total**	**30,112**
	Commutation and Lump Sum Retirements	
5,968	Havering	4,328
939	Scheduled Bodies	864
164	Admitted Bodies	247
7,071	**Commutation and Lump Sum Retirements Total**	**5,439**
	Lump Sum Death Benefits	
143	Havering	831
29	Scheduled Bodies	104
172	**Lump Sum Death Benefits Total**	**935**
36,409	**Total Benefits Payable**	**36,486**

By authority

2016/17 £000		2017/18 £000
33,598	Havering	33,465
2,059	Scheduled bodies	2,137
752	Admitted Bodies	884
36,409	**Total Benefits Payable**	**36,486**

10. Payments To and On Account of Leavers

2016/17 £'000		2017/18 £'000
81	Refunds to members leaving service	45
3,775	Individual transfers	3,762
3,856	**Payments to and on Account of Leavers**	**3,807**

At the year end there are potential liabilities of a further £0.65m in respect of individuals transferring out of the Pension Fund upon whom the Fund is awaiting final decisions (See Note 26).

11a. Management Expenses

2016/17 £000		2017/18 £000
562	Administrative Costs	532
3,003	Investment Management Expenses	3,346
352	Oversight and Governance Costs	421
8	Local Pension Board	5
3,925	**Management Expenses**	**4,304**

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 £0.096m (2016/17 £0.084m) in respect of performance-related fees paid/payable to the fund's investment managers. It also includes £0.073m in respect of transaction costs (2016/17 £0.144m).

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.

11b. Investment Management Expenses

2016/17 £000		2017/18 £000
2,814	Management Fees	3,188
11	Performance measurement fees	16
34	Custody fees	20
144	Transaction costs	122
3,003	**Investment Management Expenses**	**3,346**

12. Investment Income

2016/17 £000		2017/18 £000
2,444	Income from equities	3,586
3,572	*Income from Bonds	3,260
1,387	Pooled Property Investments	2,238
(1,070)	Foreign Exchange Gains/(losses)	140
95	Interest on Cash Deposits	113
52	Other Income	3
6,480	**Investment Income**	**9,340**

* Income includes Index linked Interest of £0.161m (2016/17 £0.182m).

13. Taxes on Income

2016/17 £000		2017/18 £000
(22)	Withholding Tax	-
(22)	**Taxes on Income**	**-**

14. Analysis of Investments

2016/17 £'000		2017/18 £'000
	Investment Assets	
	Bonds - Fixed Interest Securities	
11,863	UK Public Sector	15,322
65,845	UK Private (Corporate)	70,255
1,264	Overseas Public Sector	-
78,972		**85,577**
	Bond - Index-Linked Securities	
35,774	UK Public Sector	30,857
777	UK Private (Corporate)	764
389	Overseas Public Sector	2,053
36,940		**33,674**
	Derivative Contracts	
63	Forward Currency Contracts	18
63		**18**
	Pooled Investment	
500,444	UK Unit trusts - Quoted	524,615
152	UK Unit Trusts - Unquoted	152
38,641	Pooled property investments	40,796
539,237		**565,563**
2,039	Cash deposits Managers	3,215
-	Amounts receivable for sales	68
1,009	Investment income due	1,172
361	Outstanding Dividend and Recoverable Withholding Tax	8
3,409		**4,463**
658,621	**Total Investment Assets**	**689,295**
	Investment Liabilities	
(113)	Amount payable for purchases	-
(113)	**Total Investment Liabilities**	**-**
658,508	**Total Net Investments**	**689,295**

14a. Reconciliation of movements in investments and derivatives

	Market Value at 31 March 2017	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 2018
	£000	£000	£000	£000	£000	£000
Fixed Interest Securities	78,972	34,803	(27,813)	(385)	-	85,577
Index-linked Securities	36,940	17,293	(20,533)	(26)	-	33,674
Pooled Investment Vehicles	539,237	22,094	(22,917)	27,149	-	565,563
Derivatives – forward currency contracts	63	2,007	(2,007)	(45)	-	18
Cash Deposits (fund managers)	2,039	-	-	-	1,176	3,215
	657,251	**76,197**	**(73,270)**	**26,693**	**1,176**	**688,047**
Other Investment Balances	1,257	-	-	-	(9)	1,248
	658,508	**76,197**	**(73,270)**	**26,693**	**1,167**	**689,295**

	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
	558,872	**258,409**	**(338,606)**	**95,253**	**83,323**	**657,251**
Other Investment Balances	1,843	-	-	1	(587)	1,257
	560,715	**258,409**	**(338,606)**	**95,254**	**82,736**	**658,508**

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 £0.122m, including transition costs (2016/17 £0.144m). 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 2018 were as follows:

14b. Investments analysed by Fund Manager

Value 31 March 2017		Manager	Mandate	Value 31 March 2018	
£000	%			£000	%
127,458	19.36	Royal London	Investment Grade Bonds	131,077	19.02
39,274	5.96	UBS	Property	40,796	5.92
97,009	14.73	State Street Global Assets	Passive UK/Global Equities	-	-
102,489	15.56	GMO Global Real Return (UCITS)	Multi Asset	108,696	15.77
292,267	44.38	London CIV	Pooled Global Equities	309,837	44.95
-	-	Legal & General Investment Management	Passive UK/Global Equities	98,879	14.34
11	0.01	Other	Other	10	0.00
658,508	100	Total Fund		689,295	100.00

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-Mar-17	% of total fund	Security	Market Value 31-Mar-18	% of total fund
£000	%		£000	%
292,267	44	London CIV	-	-
-	-	London CIV Global Alpha Fund	126,973	18
102,486	16	GMO Global Real Return (UCITS) Fund	108,696	15
-	-	London CIV Ruffer Absolute Return Fund	95,216	13
-	-	London CIV Diversified Growth Fund	87,498	12
97,009	15	SSGA MPF All World Equity Index	-	-
-	-	LGIM FTSE RAFI AW 3000 Index	49,486	7
-	-	LGIM All World Equity Index	49,393	7
39,274	6	UBS Property	40,796	6

14c. Stock Lending

We do not carry out stock lending directly. We are investors of a pooled fund with the passive equity manager, Legal and General Investment Management (LGIM), who carry out stock lending as part of the Fund's activities. Stock Lending occurs in limited number of overseas equities index funds.

The Stock Lending programme is managed and administered by the custodian of the funds (Citibank) within the risk control parameters set by LGIM. The programme has been operating for over 10 years and enjoys an idemnity from Citibank. Stocklending is only undertaken with counterparties who have satisified the requirements in terms of market capability and minimum credit standing.

All income arising from stock lending less the custodian/administrator's costs are credited to the funds lending the stocks. LGIM does not receive any revenue from the stock lending. As at 31 March 2018, the value of quoted equities on loan was £75.7m. These equiites continue to be recognised in the fund's financial statements.

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 2018 is given below:

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Asset Value (Unrealised Gain)	Liability Value (Unrealised Loss)
	£000	£000	£000	£000	£000	£000
Up to three months	GBP	2,008	USD	1,990	18	-
Gross open forward currency contracts at 31 March 2018					**18**	**-**
Net forward currency contracts at 31 March 2018					**18**	**-**
Prior year comparative						
Gross open forward currency contracts at 31 March 2017					**63**	**-**
Net forward currency contracts at 31 March 2017					**63**	**-**

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
Pooled quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Pooled instruments property funds	Level 3	Valuations carried out by the property funds external valuers, Knight Frank LLP	Market value in accordance with the "RICS" Appraisal and Valuation standards	Valuations could be affected by significant differences in rental value and rental 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 2018.

	Assessed valuation range (+/-)	Value at 31 March 2018	Value on increase	Value on decrease
	%	£000	£000	£000
Pooled Investments – Property funds	3.65	40,795	42,285	39,307

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 2018	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Financial Assets				
Financial assets at fair value through profit and loss	643,884	152	40,796	684,832
Loans and receivables	22,604	-	-	22,604
Total Financial Assets	**666,488**	**152**	**40,796**	**707,436**
Financial Liabilities				
Financial liabilities at amortised cost	(328)	-	-	(328)
Total Financial Liabilities	**(328)**	**-**	**-**	**(328)**
Net Financial Assets	**666,160**	**152**	**40,796**	**707,108**

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

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-Mar-17				31-Mar-18		
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
			Financial Assets			
78,972	-	-	Bonds -Fixed Interest Securities	85,577	-	-
36,940	-	-	Bonds - Index linked securities	33,674	-	-
63	-	-	Derivative contracts	18	-	-
500,596	-	-	Pooled investment Vehicles	524,767	-	-
38,641	-	-	Property	40,796	-	-
-	2,039	-	Cash	-	3,215	-
-	1,370	-	Other Investment Balances	-	1,248	-
-	13,136	-	Debtors	-	18,141	-
655,212	**16,545**	-	**Financial Assets Total**	**684,832**	**22,604**	-
			Financial Liabilities			
-	-	(113)	Other Investment Balances	-	-	-
-	-	(265)	Creditors	-	-	(328)
-	-	(378)	**Financial Liabilities Total**	-	-	**(328)**
655,212	16,545	- 378	Grand total	684,832	22,604	- 328
	671,379				707,108	

(b) Net Gains and Losses on Financial Instruments

2016/17 £000		2017/18 £000
	Financial assets	
95,254	Fair value through fund account	26,693
95,254	Total	26,693

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. Polices 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-Mar-18 Potential market movements (+/-) %	31-Mar-17 Potential market movements (+/-) %
Global Equities Inc. UK	7.47	9.68
Fixed Interest Bonds	8.12	9.25
Index Linked Bonds	14.01	14.29
Multi Asset	4.74	4.93
Property	3.65	3.05
Cash	0.00	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 2018 £000	Change %	Value on Increase £000	Value on Decrease £000
Fixed Interest Bonds	85,577	8.12	92,526	78,628
Index linked Bonds	33,674	14.01	38,392	28,956
Global Pooled inc.UK	524,767	4.74	549,641	499,893
Property	40,796	3.65	42,285	39,307
Cash	3,215	0.00	3,215	3,215
Total	688,029		726,059	649,999

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	500,596	4.93%	525,276	475,917
Property	38,641	3.05%	39,820	37,462
Cash	2,039	0.01%	2,039	2,039
Total	657,188		695,631	618,747

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 2018 and 31 March 2017 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 2018 £000	Potential movement on 1% change in interest rates	Value on increase £000	Value on Decrease £000
Bond Securities	119,252	1,193	120,444	118,059
Cash and Cash Equivalents	3,215	32	3,246	3,183
Cash Balances	17,658	177	17,835	17,481
Total Change in Asset Value	**140,125**	**1,402**	**141,525**	**138,722**

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
Total Change in Asset Value	**130,773**	**1,307**	**132,081**	**129,466**

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 12.29% over a rolling 36 month period.

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

A 12.29% 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 2018	Potential Market movement	Value on increase	Value on Decrease
	£000	12.29%	£000	£000
Overseas Index Linked Bonds	2,053	252	2,306	1,801
Overseas Cash	1	-	-	-
Total change in assets available to pay benefits	**2,054**	**252**	**2,306**	**1,801**

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

(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 2018 the value of liquid assets was £666m, which represented 94% of the total Fund (31 March 2017 £618m, which represented 94% 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 2017/18

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;
- 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 62 of the Local Government Pension Scheme Regulations 2013 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-Mar-16 %
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 reached a peak 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

** Aged 45 at the 2016 Valuation*

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from the Administrating Authority to the Fund.

Experience over the period since 31 March 2017

Since the last formal valuation, real bonds yields have fallen placing a higher value on the liabilities and there have been strong asset returns, particularly during 2016/17. Both events are of broadly similar magnitude with regards to the impact on the funding position.

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-Mar-17	Year Ended	31-Mar-18
£m		£m
1,206	Present Value of Promised Retirement Benefits	1,226
671	Fair Value of Scheme assets (bid Value)	707
535	Net Liability	519

The promised retirement benefits at 31 March 2018 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 2018 and 31 March 2017. It is estimated that the impact of the change in financial assumptions to 31 March 2018 is to decrease the actuarial present value by £22m. There is no impact from any change in the demographic and longevity assumptions because they are identical to the previous period.

Financial assumptions

The actuary's recommended financial assumptions are summarised below:

Year Ended (% p.a)	31-Mar-18	31-Mar-17
	% p.a.	% p.a.
Pension Increase Rate	2.4	2.4
Salary Increase Rate	2.7	2.7
Discount Rate	2.6	2.5

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 reached a peak 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 2018	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	94
0.5% p.a. increase in the Salary Increase Rate	1%	14
0.5% p.a. decrease in the Real Discount Rate	9%	115

The principal demographic assumption is the longevity assumption. For sensitivity purposes, It is estimated 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 2018 for accounting purposes'. The covering report identifies the appropriate reliances and limitations for the use of the figures in these documents, together with further details regarding the professional requirements and assumptions.

21. Current Assets

2016/17 £000		2017/18 £000
	Debtors:	
224	Contributions due from employers	294
71	Contributions due from employees	80
-	Pension Fund Bank Account Balances	104
18	Debtors Refund	29
12,823	Cash deposit with LB Havering	17,634
13,136	**Current Assets**	**18,141**

2016/17 £000	Analysis of Debtors	2017/18 £000
224	Public corporation and trading funds	294
71	Other entities and individuals	80
295	**Total Debtors**	**374**

22. Current Liabilities

2016/17 £000		2017/18 £000
	Creditors:	
(80)	Unpaid Benefits	(84)
(132)	Accrued Expenses	(164)
(53)	Holding Accounts	(80)
(265)		**(328)**

2016/17 £000	Analysis of Creditors	2017/18 £000
(265)	Other entities and individuals	(328)
(265)	**Total**	**(328)**

23. Additional Voluntary Contributions

Market Value 2016/17 £000	AVC Provider	Market Value 2017/18 £000
801	Prudential	810
202	Standard Life	167

Some employees made additional voluntary contributions (AVC's) of £47,510 (2016/17 £52,413) 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 2017/18 were £40,744 (2016/17 £38,515) to the Prudential and £6,775 (2016/17 £13,898) 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:

2016/17 £000		2017/18 £000
1,410	Payments on behalf of Havering Council	1,380

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 2017/18, £0.450m was paid to the Authority for the cost of administrating the Fund (2016/17 £0.459m).

The Authority is also the largest employer in the Fund and in 2017/18 contributed £26.911m (16/17 £24.997m) 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 2018 cash holdings totalled £17.7m (2016/17 £12.8m), earning interest over the year of £0.113m (2016/17 £0.094m).

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 Statutory Section 151 officer until 31 March 2018 and the Managing Director of oneSource.

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.

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 2018.

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 £0.65m 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

Two 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 £0.26m and are drawn down in favour of the Pension Fund. Payment will only be triggered in the event of employer default.

Three admitted bodies, which are subject to pending legal agreements, will hold bonds or guarantees totalling £2.6m.

28. Impairment Losses

There were no material impairment losses for bad and doubtful debts as at 31 March 2018.

Agenda Item 7

Havering
LONDON BOROUGH

PENSION COMMITTEE

Subject Heading:	**PENSION FUND ANNUAL REPORT-YEAR ENDED 31 MARCH 2018**
CLT Lead:	**Jane West**
Report Author and contact details:	***Debbie Ford*** ***Pension Fund Accountant*** ***01708432569*** ***Debbie.ford@onesource.co.uk***
Policy context:	Regulation 57 of the LGPS Pension Scheme Regulations 2013 applies from reporting period commencing 1 April 2014 and requires an administrative authority to publish an annual report
Financial summary:	Audit costs for the pension fund annual report are part of the overall cost of auditing the pension fund statement of accounts

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

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 2017/18 which has been prepared in accordance with Regulation 57 of the Local Government Pension Scheme Regulations 2013 which applies for reporting periods beginning 1 April 2014. This supersedes Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

RECOMMENDATIONS

1. The committee agree the 2017-2018 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.

REPORT DETAIL

1 Background

1. For reporting periods beginning 1 April 2014, the statutory basis for Local Government Pension Scheme (LGPS) fund annual reports is Regulation 57 of The Local Government Pension Scheme Regulations 2013. It states that an administrating authority must, in relation to each year beginning on 1st April 2014 and each subsequent year prepare a document ('the pension fund annual report'). This supersedes the regulations first introduced in 2008. LGPS funds have been required to produce an annual report each year since 2008.

2. The authority must publish the pension fund annual report on or before 1 December following the year end. This annual report covers the period 1 April 2017 to 31 March 2018.

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 18**.

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 2017/18 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.

IMPLICATIONS AND RISKS

Financial implications and risks:

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

The planned cost of a separate audit opinion for the 2017/18 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.

HAVERING PENSION FUND ANNUAL REPORT MARCH 2018

Pensions Regulator Registration Number 10027841

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

Tel: 01708 432217
Fax: 01708 432162

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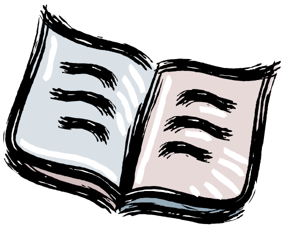


Trustee Report

Foreword to the Annual Report of the Havering Pension Fund for the year ended 31st March 2018

I am pleased to report that in 2017/18 the value of the Fund's investments grew by 4.9% (an increase in net assets of £36m) while the LGPS average grew on average by 4.5% in the same period. This growth translated into outperformance on the Fund's tactical benchmark by 2.3%, and its strategic benchmark by 2.5%. Further information on the Fund's investment performance can be found on pages 25-32 of this report.

In addition, the Actuaries inter valuation report showed a slight improvement in the funding level from the valuation date 31 March 2016 at 66.8% to 69.4% at 30 September 2017. This was mainly attributable to 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 Pensions Committee ("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 2017/18, investment mandates held with State Street Global Assets was transferred to Legal and General Investment Management (LGIM) to obtain benefits from substantially reduced fees negotiated by the LCIV. This increases the Fund's assets held under management by the LCIV to £408.7m (59% of the Fund).

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.

The Committee commenced development and implementation of the revised Investment Strategy (see pages 149-161) during 2017/18. In addition to switching the passive equity manager to LGIM, the Committee also appointed three new Fund Managers in March 2018, following a market search in collaboration with the Newham Pension Fund, to meet the planned increase in exposure to real assets (infrastructure). This strategy was not available through the LCIV and will be funded by a reduction to multi asset mandate.

2018/19 will see the Fund on-board those new managers and implement the rebalancing of the fund to match the long term strategic asset allocations. The Fund will also continue with its search to appoint a manager/s that will meet the fund's planned increased exposure to alternative credit mandates.

I would like to thank those members that have left the Committee following the local elections for their hard work and dedication and wish them well in their future endeavours.

I would like to thank the Local Pension Board for the work it has done in 2016/17 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, and would welcome any comments on the contact via contact details 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 (LGPS) Act 2013 and the LGPS Regulations 2013 (as amended) and the LGPS (Management and Investment of Funds) regulations 2016.

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

The Local Government Pension Scheme was reformed from 1 April 2014. This changed the way pension benefits are calculated; from a final salary scheme to a career average revalued scheme (CARE). Members that have membership prior to the 1 April 2014, retain the link to the final salary for all their service up to and including 31 March 2014.

Members of the LGPS belong to a scheme which currently provides high quality pension benefits. The scheme is a defined benefit scheme and therefore 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 to 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.

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. The opt-out process fully complies with the Automatic Enrolment legislation which is currently being implemented when Scheme Employers reach their staging dates.

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

The key features of the current scheme are:

- A pension based on final pay and the length of service in the scheme for membership prior to 1st April 2014, plus a CARE pension based on 1/49th or 1/98th of each year actual pensionable pay for membership from 1st April 2014.
- Pensionable pay includes all non-contractual overtime plus additional hours for part time staff, with employer contributions being payable on these elements as well.
- 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.
- The ability to provide a tax-free lump sum by commutation of pension.
- 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 can be paid 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 2017/18 the contribution rates for employers in the Fund range from 17.3% to 38.2% based on the valuation as at 31 March 2016. The next valuation will take place as of 31/03/2019 and new employer rates will apply from 01/04/2020.

Employee contribution rates for 2017/18 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 – 13,700	5.50	2.75
13,701 – 21,400	5.80	2.90
21,401 – 34,700	6.50	3.25
34,701 – 43,900	6.80	3.40
43,901 – 61,300	8.50	4.25
61,301 – 86,800	9.90	4.95
86,801 – 102,200	10.50	5.25
102,201 – 153,300	11.40	5.70
153,301 or more	12.50	6.25

Further details of the Local Government Pension Scheme, including the protections that are in place for benefits accrued prior to 1 April 2014, 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 statutory 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.

The London Collective Investment Vehicle (CIV) was established in 2015 as a voluntary collaborative venture by the London Local Authorities to pool/invest the assets of the London Local Government Pension Scheme. In line with Central Governments vision to reduce investment costs but maintain performance levels and it has been a mandatory requirement to pool assets since 2016. It is the Fund's intention to invest its assets through the London CIV pool and as at 31 March 2018 the Havering Pension Fund has c58% of assets under management and will continue to assess the products available on their platform for their suitability to meet the funds investment strategy objectives. Those assets held with the LCIV are now manged 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:

Conservative Group:
Cllr John Crowder (Chair)
Cllr Melvin Wallace
Cllr Joshua Chapman

UKIP
Cllr David Johnson (Vice Chair)

Residents Group
Cllr Nic Dodin (up to 22 Nov 17)*
Cllr Stephanie Nunn

East Havering Residents' Group
Cllr Clarence Barrett

Independent Resident Group (from 22 Nov 17)
Vacant*

Other
Union Members (Non-voting) - John Giles (Unison), Andy Hampshire (GMB)
Admitted/Scheduled Body Representative (voting) (currently vacant)

From May 2017 Cllr Joshua Chapman replaced Cllr Jason Frost

*Due to a Councillor changing political parties an adjustment was made to the political allocation of representatives who sit on the Pensions Committee from 22 November 2017. This resulted in the Residents Group losing one seat (Cllr Nic Dodin) and the Independent Residents Group gaining one seat (currently vacant).

Cllr John Crowder
Chair

Conservative Group

Cllr David Johnson
Vice Chair

UKIP

Cllr Melvin Wallace

Conservative Group

Cllr Clarence Barrett

East Havering Residents' Group

Cllr Stephanie Nunn

Residents' Group

Cllr Joshua Chapman

Conservative Group
(from May 17)

Cllr Nic Dodin

Residents' Group
(from May 16 to Nov 17)

Cllr Jason Frost
Conservative Group
(May 16 to 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 (until 8 November 2017)) Legal & General Investment Management (from 8 November 2017) 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 -	**Employer representatives**: 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
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 from1 April 2011)
Coopers' Company & Coborn School (Academy from1 April 11)
The Albany School (Academy from 1 August 2011)
The Campion 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 Harris Academy (Academy from 1 November 2013)
NEW: Marshalls Park Academy (Academy from 1 April 2017)

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)
Drapers' 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)

Ravensbourne Academy (Academy from 1 April 2016)
Drapers Brookside Infants (Academy from 1 September 2016)
Concordia Academy (Academy from 1 September 2016)
Benhurst Primary School (Academy from 1 October 2016)
Royal Liberty Academy (Academy from 1 February 2017)
NEW: Scargill Infant Academy (Academy from 1 September 2017)
NEW: Scargill Junior Academy (Academy from 1 September 2017)
NEW: Whybridge Junior Academy (Academy from 1 September 2017)
NEW: Harrow Lodge Academy (Academy from 1 March 2018)

Admitted Bodies:

Sports and Leisure Management Ltd – Fitness and Health
Sports and Leisure Management Ltd – Charitable Trust
Family Mosaic (joined 1 November 2012, ceased 17 April 2017)
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)
NEW: Harrison Catering (joined 1 October 2017 – pending legal agreement)

The Havering Pension Fund also has the following bodies:

Designated Bodies:

Trust Schools

Corbets Tey Special School

Foundation Schools:

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.

In June 2015, the Risk Register was 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. The Pension Fund Risk Register will be reviewed during 2018/19.

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.

LPP provide services to a number of clients who demand and expect that well planned and tested business continuity arrangements be put in place should the need arise. All our business continuity plans require us to inform all customers whenever a specific response plan is activated.

Business continuity arrangements are regularly reviewed, and any changes/lessons learned etc. communicated to all interested parties.

The overarching objectives of our Business Continuity Plan arrangements are to minimise the disruption to the Pension Service due to an incident that causes an interruption in the normal delivery of the service. To achieve this we carry out business impact analyses, assess the likelihood and impact of failure, and use specific or generic plans to manage in the event of a critical failure. We work closely with suppliers upon whom we are reliant and ensure we understand their own business continuity processes and how these will support our business in the event of a failure.

The Business Continuity Team comprises key staff who understand all aspects of the business, have the authority to make decisions and fully understand customers' needs and expectations.

All staff are briefed on business continuity arrangements, can be contacted at any time, and are equipped to work remotely should the need arise, at least to a level of resource which would enable to service to provide a minimum service level within 24 hours.

FINANCIAL PERFORMANCE

The Pensions Committee is supported by the Administering Authority's Finance and Administration services (onesource) 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.

Pensions Administration - A review of the Pensions Administration services was undertaken during 2017 which resulted in the administrating authority's services for pension administration being outsourced. The Pensions Administration is provided through a delegated arrangement and is supplied by Local Pensions Partnership (LPP) which is a joint venture between Lancashire County Council and London Pensions Fund Authority. This arrangement came into action from 1 November 2017. Previous to this the pension's administration was an in house service which consisted of 9.1 FTE.

Accountancy and Investment support - The Onesource Finance service that supports the Pension Fund consists of an establishment of 2 full time equivalent posts.

In June 2014 The Chartered Institute of Public Finance & Accountancy (CIPFA) produced guidance on how to account for Management costs and then updated it in 2015 in order that improvements in cost comparisons can be made across all funds. Management costs are now split between three cost categories as follows:

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

	2016/17 Actual £000	2017/18 Estimate £000	2017/18 Actual £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
*Administration & Processing	496	496	500	565	419	421
Other Fees	7	7	12	8	8	8
Other Costs	59	72	20	30	30	30
TOTAL	**562**	**575**	**532**	**603**	**457**	**459**

*a) Estimated costs from 2018/19 reflect the costings presented to the Committee in June 2017, and
b) One off hosting costs expected during 2017/18 have slipped to 2018/19, as this function has yet to transfer to LPP.

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.

	2016/17 Actual £000	2017/18 Estimate £000	2017/18 Actual £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
Fund Manager Fees	2,958	2,958	3,310	3,261	3,261	3,261
Custodian Fees	34	34	20	20	20	20
Performance Measurement services	11	11	16	11	11	11
TOTAL	**3,003**	**3,003**	**3,346**	**3,292**	**3,292**	**3,292**

Governance and Oversight

This category captures 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.

	2016/17 Actual £000	2017/18 Estimate £000	2017/18 Actual £000	2018/19 Estimate £000	2019/20 Estimate £000	2020/21 Estimate £000
Financial Services	142	142	147	147	147	147
Actuarial Fees	83	50	36	50	50	80
Audit Fees	24	21	18	21	21	21
Member Training (inc. LPB)	5	10	1	10	10	10
Advisor Fees	42	50	89	50	50	50
CIV/SAB Levy	25	103	101	93	78	48
Local Pension Board	3	5	5	5	5	5
Pensions Committee	36	36	29	36	36	36
TOTAL	**360**	**417**	**426**	**412**	**397**	**397**
OVERALL MANAGEMENT TOTAL	**3,925**	**3,995**	**4,304**	**4,307**	**4,146**	**4,148**

Please note the following regarding the above figures

- Management and custody fees are charged according to the fund value; therefore an average figure has been applied for 2018/19 onwards.
- Based on 2017/18 fund and staffing structures.
- Fund Management fees takes no account of fee savings that are expected from joining the London CIV as these are unavailable at the time of writing this report.

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	2015/16	2016/17	2017/18	Bal c/f
Income					
Predictable		(33.1)	(33.4)	(36.4)	
Unpredictable		(10.4)	(8.8)	(10.2)	
Sub Total		**(43.5)**	**(42.2)**	**(46.6)**	
Benefit Payments					
Predictable		29.4	31.2	31.4	
Unpredictable		8.8	11.2	10.2	
Sub Total		**38.2**	**42.4**	**41.6**	
Total	**(7.6)**	**(5.3)**	**0.2**	**(5.0)**	**(17.7)**

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 2012/13 relating to recoverable overpayments of pension to deceased and child members of the scheme are set out in the table below.

Year debt raised	Amount of debt raised £	Debt collected £	Debt outstanding £
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
2017/18	11,499	7,421	4,078

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 2017, all reports are being worked on and suspensions put in place where necessary. The next NFI exercise is due September 2019. The Pension administration team also 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 a review of all outstanding death cases during 2016/17 which resulted in an increase in the amount of debt raised that year.

The total value of employer contributions to the fund was £34,708,510 and employee contributions were £6,940,361 making a total of £41,648,871, 100% of these were paid on or before the due date.

ADMINISTRATIVE MANAGEMENT PERFORMANCE

Pension Services Local Performance Indicators 2017/18

INDICATOR	What is it an indicator of?	Actual 2017/18 %	Target 2017/18 %	Actual 2016/17 %	Actual 2015/16 %
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	*Not Available.	95	74.3	86.4
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	*Not Available	91	82.2	65.3
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 receipt of all relevant information.	*Not Available	60	43.4	72.9
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	*Not Available	80	28.0	14.3
The percentage of 'Transfers Out' actuals processed within 15 working days	The percentage of transfers out paid to the new pension provider	*Not Available	80	74.6	24.1
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	*Not Available	95	67.9	83.9
The percentage of joiners processed within 10 working days of information received	The percentage of joiners' records set up on the Pensions Administration System	*Not Available	70	89.6	89.5

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.

*Due to the difficulty in recruiting experienced Pensions Administrators the team were working at 5 FTE when the team should be at 9.1 FTE. Therefore the recording of KPI's was not maintained. This led to the decision to move the pension's administration service into a delegated arrangement with LPP. It was agreed at transfer for LPP not to record KPI's until April 2018 as there was a considerable volume of backlog work.

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.

Annual Benefit Statements are required to be sent to active and deferred scheme members by 31st of August each year. This was achieved successfully by the team who also ensured Member Self Service was implemented to reduce printing and postage costs, which each year is approx. £7,000.

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. July 2018 will see the migration of data to LPP hosting and software system.

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

- Employer meetings and workshops on employer responsibilities
- 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.

Service Item	**2013/14 Cases**	**2014/15 Cases**	**2015/16 Cases**	**2016/17 Cases**	**2017/18 Cases**
Retirements processed	315	261	279	370	257
Early retirement estimates processed	657	725	827	872	*Not Available
Notification of Deferred Benefits	538	243	351	348	241
Transfers In Actuals processed	54	54	35	25	45
Transfers Out Actuals processed	31	31	29	59	55
Death notification written out	158	178	224	193	157
New LGPS joiners processed	1,234	1,173	1,004	1,009	1,093
Refunds	29	99	148	123	113
TV Out & Inter Fund Adjustment (IFA) Quote	69	75	98	77	*Not Available
TV In & IFA Quote	70	108	254	69	*Not Available
Total Cases per year	**3,155**	**2,947**	**3,249**	**3,145**	**1,961**

*Due to the difficulty in recruiting experienced Pensions Administrators the team were working at 5 FTE when the team should be at 9.1 FTE. Therefore the recording of KPI's was not maintained. This led to the decision to move the pension's administration service into a delegated arrangement with LPP. It was agreed at transfer for LPP not to record KPI's until April 2018 as there was a considerable volume of backlog work.

Staff Resource

From November 2017 the Pensions Administration service is supplied by LPP, prior to this date it was part of oneSource Exchequer and Transactional Services. To ensure the effective delivery of the contract a Pensions Projects and Contracts Manager has been appointed from 1 November 2017.

The team up to 31 October 2017 consisted of 9.11 FTE of which 5 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 (inc.1 agency)
Specialist Transactional Agent	0.44	0
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.

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. From April 2018 LPP will provide the service with monthly reports of cases completed and key performance indicators met. These will be provided to the Local Pensions Board and Pensions Committee.

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 Administration Service. Demand for pension guidance for managers and employees working in areas that may be subject to change continues to escalate

Academies and Outsourcing

Five schools converted to Academies during 2017/18. Academies need continual support and monitoring.

Outsourcing of services within the authority employers continues to add further demand and therefore an Employer Risk Manager has been put in place via LPP to ensure all admission agreements and bonds are in place for the service providers. 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 Employer Risk Manager 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 LPP. 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.

To support employers and services the Fund has produced an **Employer Outsourcing Guide**, this provides an overview of the pension implications and the procedures to follow when LGPS scheme employers outsource services from the organisation. This document is available on the Pension website by selecting the following link: [http://www.yourpension.org.uk - select Employer Guides](http://www.yourpension.org.uk)

Fund Membership Data

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

	As at 31 March 2018	As at 31 March 2017	As at 31 March 2016	As at 31 March 2015	As at 31 March 2014
Contributors	6,562	6,217	6,526	6,484	6,206
Deferred pensioners	6,384	6,196	5,709	5,224	4,874
Pensioners and Dependants	6,247	6,101	5,884	5,779	5,641
	18,193	**18,514**	**18,119**	**17,487**	**16,721**

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

	As at 31 March 2018	As at 31 March 2017	As at 31 March 2016	As at 31 March 2015	As at 31 March 2014
Ill Health	3	6	11	15	13
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	2	**2**
5-9	0	0	0	4	**4**
10-14	0	0	0	4	**4**
15-19	41	3	0	20	**67**
20-24	187	83	0	5	**275**
25-29	320	284	0	0	**604**
30-34	414	495	0	0	**909**
35-39	667	548	0	2	**1,217**
40-44	837	701	3	3	**1,544**
45-49	1,129	1,153	8	13	**2,303**
50-54	1,198	1,408	12	16	**2,634**
55-59	1,047	1,159	166	27	**2,399**
60-64	566	499	851	52	**1,968**
65-69	138	44	1,288	77	**1,547**
70-74	17	7	1,208	105	**1,337**
75-79	1	0	740	137	**878**
80-84	0	0	552	162	**714**
85-89	0	0	340	155	**495**
90-94	0	0	152	90	**242**
95-99	0	0	30	16	**46**
100-104	0	0	1	6	**7**
TOTAL	**6,562**	**6,384**	**5,351**	**896**	**19,193**

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 2017/18 was 15.6% of salary plus cash of £9.650m (2016/17 15.6% plus cash of £8.150m). The Authority's annual contribution is reviewed every three years. The valuation based on data as at 31st March 2016 set employer contribution rates for 2017/18, 2018/19 and 2019/20.

In 2017/18 the contribution rates due from the other employers in the Havering Pension Fund range from 17.5% to 38.2%, 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)	4,746	5,312,082	27,625,946
SCHEDULED BODY:			
Havering College of Further & Higher Education	270	298,190	1,356,026
Havering Sixth Form College	94	107,566	378,700
Hall Mead School	89	63,178	253,736
The Campion School	71	77,659	267,558
The Frances Bardsley Academy for Girls	70	72,946	281,447
The Brittons Academy Trust	69	66,263	272,840
Redden Court School	69	57,365	219,600
Drapers Pyrgo Primary	61	32,471	128,137
St Edward's Church of England School & Sixth Form	59	58,861	370,395
Emerson Park Academy	59	43,413	163,613
Sacred Heart of Mary Girls' School	52	33,681	148,916
Drapers Academy	47	62,744	244,403
Coopers' Company & Coborn School	46	65,499	252,996
Marshalls Park Academy	46	44,973	205,886
Bower Park Academy	45	41,903	177,003
Rise Park Junior Academy	45	18,251	75,289
The Albany School	43	40,893	146,769
Ravensbourne Academy (Hornbeam Academy)	40	42,076	166,451
Oasis Academy (Pinewood)	39	18,883	76,068
Royal Liberty Academy	38	33,802	362,188
Harrow Lodge Academy (formerly Wykeham School)	37	2,444	12,694
Abbs Cross Academy and Arts College	35	31,789	133,624
Langtons Junior Academy	34	12,695	47,860
Rise Park Infant School	33	14,267	62,876
Drapers Brookside Infant Academy	31	19,955	80,845
Drapers Brookside Junior Academy	30	18,156	75,461
Benhurst Primary	27	18,640	86,104
Dycort School (Hornbeam Academy)	25	33,777	137,539
Scargill Infant Academy (Hornchurch Academy Trust)	25	10,362	46,367
Upminster Infant Academy	24	9,531	43,305

Contributing employers	Active Members	Contributions from Members £	Contributions from Employers £
The Chafford School (Harris Academy)	22	35,597	133,564
Upminster Junior Academy	20	15,190	85,601
Scargill Junior Academy (Hornchurch Academy Trust)	17	8,558	38,999
Whybridge Junior Academy (Hornchurch Academy Trust)	16	7,464	35,301
Drapers Mayland Primary Academy	8	6,029	24,450
Olive Academy (Birnum Wood)	7	7,454	106,073
Concordia Academy	2	4,250	7,923
Scheduled Body Total	**1,745**	**1,536,775**	**6,706,607**
ADMITTED BODIES:			
Sports & Leisure Management – Charitable Trust	44	47,261	197,864
Sports & Leisure Management – Fitness and Health	5	4,442	19,097
Family Mosaic (ceased 17 April 2017)	-	1,032	-
Breyer Group Voids	2	6,393	19,568
Breyer Group Repairs	7	18,269	59,820
Accent Catering	6	11,178	60,038
Harrison Catering	4	1,464	9,962
Caterlink	3	1,464	-
*Citizens Advice Bureau	0	-	9,600
Admitted Bodies Total	**71**	**91,503**	**375,949**
TOTAL	**6,562**	**6,940,360**	**34,708,502**

*Cessation repayment

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 Investment Strategy Statement (ISS), produced in accordance with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.and the Myners Compliance Statement.

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 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

In line with LGPS (Management and Investment of Funds) Regulation 2016 – Regulation 7, the authority's statement must include:

(a) a requirement to invest money in a wide variety of investments;
(b) an assessment of the suitability of particular investments and types of investments;
(c) its approach to 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) a policy on 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.

The ISS has been prepared by the Fund's Pension 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 ISS, which was reviewed and updated by the Committee on 21 November 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.

Myners - The new LGPS (Management and investment of Funds) regulations 2016 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 original ISS when it was published in March 2017. This statement 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.

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

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 £0.26m and are drawn down in favour of the Pension Fund and payment will only be triggered in the event of employer default. Three admitted bodies, which are subject to pending legal agreements, will hold bonds or guarantees totalling £2.6m.

In collaboration with the Fund's Actuary the Fund has produced an 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. To view the Admissions Policy please select the following link:
http://www.yourpension.org.uk select Employer Guides

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. Reporting arrangements were reviewed in June 2017 and it was agreed that only one fund manager will attend each meeting. Based on the current fund manager numbers and the planned quarterly committee cycle, then the Committee would see each manager every 15 months. If there are any specific matters of concern to the Committee relating to any manager's performance, arrangements can be made for additional meetings with those managers.

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.

Responsible Investment and voting activity

In line with the Fund's current Investment Strategy Statement, engagement and voting activity is delegated to the Fund's Investment managers with the Fund reviewing their approach on an annual basis.

Shareholder rights are typically only available to the Fund's investment managers that have equity holdings: this includes the Fund's investments with Baillie Gifford Global Alpha Fund and LGIM together with the multi-asset mandates managed by Ruffer, GMO and Baillie Gifford (DGF). In relation to funds accessed via the London Collective Investment Vehicle (LCIV) (Baillie Gifford mandates and Ruffer), the LCIV operator has responsibility for engaging directly with investment managers.

In support of the Committee's ongoing monitoring requirement, the Fund's Investment Advisor (Hymans) presented a summary on the responsible investment and voting activities undertaken by the funds managers for the year ended 30 June 2017, this was presented to the Pensions Committee on the 12 December 2017.For further details please select the following link:
Pensions Committee agenda 12 December 2017.

The Fund subscribes to the Local Authority Pension Fund Forum (LAPFF) in recognition of the need to collaborate with other investors to promote best practice on responsible investment and effectively engage with companies.

ASSET ALLOCATION

The Fund Managers and the market value of assets under their management at 31 March 2018 are as follows:

Manager	Mandate	Value £000	Proportion of Total Fund %
Royal London	Active Investment Grade Bonds	131,077	19.02
UBS	Active Property	40,796	5.92
Legal & General Investment Management	Passive UK/Global Equities	98,879	14.34
London CIV Ruffer	Multi Asset Absolute Return	95,216	13.47
London CIV Baillie Gifford	Pooled Global Equities	126,973	17.96
London CIV Baillie Gifford DGF	Multi Asset	87,498	12.37
London CIV	Shares	150	
GMO	Multi Asset	108,696	15.37
	Other	10	0.00
	Total Fund	**689,295**	**100.00**

The planned asset allocation and movement in the asset allocations since the last annual report is shown in the following table:

Asset Class	Short Term Target Allocation ISS (Nov 17)	Long Term Target Allocation ISS (Nov 17)	Actual Asset allocation March 2017	Actual Asset allocation March 2018	Asset Allocation March 2018 vs ISS Short Term Target
	%	%	%	%	%
Equities	**30.0**	**40.0**	**31.2**	**31.9**	**1.9**
Passive Global Equity	7.5	10.0	7.2	6.9	-0.6
Fundamental Equity	7.5	10.0	7.3	7.0	-0.5
Active Global Equity	15.0	10.0	16.7	18.0	3.0
Other Equity	-	10.0	-	-	-
Multi Asset	**42.5**	**20.0**	**42.1**	**41.2**	**-1.3**
Absolute Return	15.0	10.0	14.4	13.5	-1.5
Diversified Growth	12.5	10.0	12.5	12.4	-0.1
Real Return	15.0	-	15.3	15.3	0.3
Real Assets:	**8.5**	**17.5**	**5.8**	**5.8**	**-2.7**
Property	6.0	6.0	5.8	5.8	-0.2
Infrastructure	2.5	7.5	-	-	-2.5
Other Real assets	-	4.0	-	-	-
Bonds and Cash	**19.0**	**22.5**	**20.9**	**21.1**	**2.1**
Conventional Bonds	19.0	5.0	19.0	18.5	-0.5
Other Bonds	-	17.5	-	-	
Cash	-	-	1.9	2.6	2.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**0**

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. There were no asset allocation movements during 2017/18.

Significant changes in the year were as follows:

- The Fund transferred the pooled passive global and fundamental equity mandates from State Street Global Assets to Legal & General Investment Management, the Fund will benefit from the reduced fees negotiated via the London CIV.
- The Fund will be aiming to work towards fulfilling the Long Term Target Asset allocations over the coming years, as shown in the above table. During the year the Fund undertook a joint procurement exercise with one of our onesource partners (Newham) and used investment consultant Bfinance to source appropriate Real Asset managers. In March 2018 the Fund awarded three mandates to achieve the Infrastructure and Other Real Asset allocations. Money will start to be invested in these mandates during 2018/19.
- During the last quarter the Fund also commenced a joint procurement exercise with four other boroughs (Lambeth, Wandsworth, Merton and Ealing (lead borough)) and has appointed Bfinance to commence a search for a manager for a pooled private debt mandate. This will work towards meeting the Other Bonds asset category.

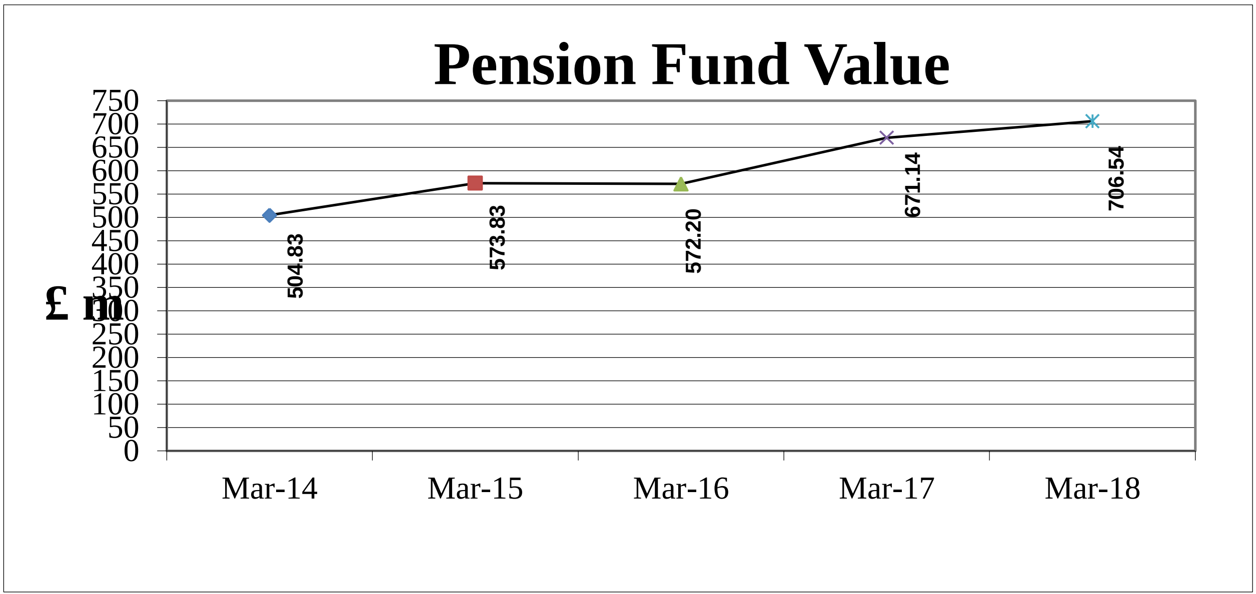
INVESTMENT PERFORMANCE

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 **£707m** for 2017/18 from £671m in 2016/17, a net increase of **£36m**.

The net increase of **£36m** is compiled of a change in the market value of assets of £27m, investment income of £9m, net additions of cash of £4m 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



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 2017/18, the overall return on the Fund's investments was **4.9%** (2016/17 17.1%). This represented an outperformance of **2.3%** against the tactical benchmark (2016/17 out performance of 4.0%) and an out performance of **2.5%** against the strategic benchmark (2016/17 under performance of -3.7%).

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

	1 year to 31.03.17 %	1 year to 31.03.18 %	3 Years to 31.03.18 %	5 years to 31.03.18 %
Fund Return	17.1	4.9	6.7	8.0
Tactical Benchmark	**12.6**	**2.6**	**5.5**	**6.5**
Performance	4.0	2.3	1.1	1.4
Fund Return	17.1	4.9	6.7	8.0
Strategic Benchmark	**21.7**	**2.3**	**8.8**	**8.7**
Performance	-3.7	2.5	-2.0	-0.7

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 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	SSgA - LGIM (from Nov 17)	Pooled	Passive	FTSE All World Equity Index
	7.5	SSgA - LGIM (from Nov 17)	Pooled	Passive	FTSE RAFI All World 3000 Index
Equities	**30.0**				
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 (UCITS)	Pooled	Active	OECD CPI g7 plus 3 - 5%
	15.0	LCIV Ruffer	Pooled	Active	Absolute Return
Multi-asset	**42.5**				
Property	6.0	UBS	Pooled	Active	IPD All balanced (property) Fund's median +
Infrastructure	2.5	Unallocated			
Real assets	**8.5**				

Asset Class	Target Asset Allocation (ISS Jan 17) %	Investment Manager/ product	Segregated / pooled	Active/ Passive	Benchmark and Target
Gilt/Investment Bonds	19.0	Royal London	Segregated	Active	• 50% iBoxx £ non- Gilt over 10 years • 16.7% FTSE Actuaries UK gilt over 15 years • 33.3% FTSE Actuaries Index- linked over 5 years. Plus 1.25%*
Bonds and Cash	**19.0**				
TOTAL	**100.0**				

*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 2018:

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark
Royal London	2.7	1.5	**1.5**
UBS	10.5	10.0	**0.5**
LCIV Ruffer	-1.1	n/a	**-1.1**
LCIV Baillie Gifford (Global Alpha Fund)*	13.1	3.2	**9.9**
LCIV Baillie Gifford (DGF) *	9.0	n/a	**n/a**
LGIM Global Equity**	n/a	n/a	**n/a**
LGIM Fundamental Index**	n/a	n/a	**n/a**
GMO (GRRUF)	6.0	1.7	**4.2**

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

- Totals may not sum due to geometric basis of calculation and rounding.
- *The objective is to achieve long term capital growth at lower risk than equity markets and not measured against a benchmark.
- **LGIM performance is not shown as they were not invested for entire period (inception Nov 17).

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 61 funds as at the end of March 2018 with a value of £177 billion.

Universe comparisons can be seen in the tables that follow:

Universe Fund Performance

	2017/18			
Universe data	**1 Year %**	**3yrs % pa**	**5yrs % pa**	**10yrs % pa**
Fund Return	4.9	6.7	9.0	7.0
Universe Average	**4.5**	**8.3**	**8.8**	**7.7**
Relative Return	0.4	-1.6	0.2	-0.7
Universe Ranking	18	82	62	78

Universe asset allocations as at March 2018

Universe Data	Average Allocation %	Havering Allocation %	Average Return %	Havering Return %	Havering Percentile Ranking
Equities	55	47	4.3	7.4	10
Bonds	18	19	1.4	3.0	15
Alternatives	11	0	5.8	-14.8	100
Property	9	6	9.8	9.0	62
Cash	3	2	no data	0.2	no data
Diversified Growth	4	26	1.6	1.6	47

Summary:

- Over the last twelve months the average Local Authority pension fund returned 4.5%. This was below the Long Term average but ahead of inflation of 3.3%
- Most Funds outperformed their benchmark by a small margin
- Property was the best performing of the major asset classes returning 10%.
- Baillie Gifford, the largest active equity manager across the LGPS performed particularly strong
- Continued low interest rates meant holding cash continued to have a negative return on return
- Hedging added value as sterling appreciated over the year
- With an average return of under 2% diversified growth funds performed poorly relative to other assets and their benchmarks
- In terms of asset allocation, equity exposure fell to its lowest level since the LGPS began, reducing from 62% to 55%.
- Major switches across index tracking managers as funds moved to take advantage of reduced fees negotiated at pool level.
- Too early to review the performance of the new pools – cost of pooling not yet reflected in performance so impact not yet visible at portfolio level.
- Substantial portfolio changes as fund move their passive mandates and London Funds move into the London CIV vehicles.

Scheme Administration Report

OVERVIEW

As mentioned in the Financial Performance section, the Pension Administration, from November 2017, is provided by LPP as part of a delegated arrangement. Prior to this it was provided in house by the Authorities Pensions 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.

LPP 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. LPP 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 /LPP 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
- 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
- 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 requirements

Key Uses of Technology

The Havering Pension Fund currently uses the ALTAIR hosted pension system, which will migrate to the LPP version INSTANCE and hosting in July 2018. LPP are supporting the continued expansion of scheme employers, the Guaranteed Minimum Pension review, publicising the use of member self-service, and implemented a workflow module.

Member self-service is live 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. It also reduces the cost of printing and postage.

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 constant review of the website is in place and takes 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), a representative from Legal and Governance (Onesource) and the Director of Finance (Onesource). The Team Leader for LPP Havering Services sits on the panel in an advisory role.

There was only one case taken to IDRP in 2017/18.

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.

Actuarial Report

London Borough of Havering Pension Fund ("the Fund")
Actuarial Statement for 2017/18

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), 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 62 of the Local Government Pension Scheme Regulations 2013 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	4.0%
Salary increase 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 reached a peak 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

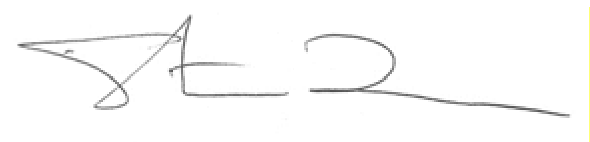
*Aged 45 at the 2016 valuation

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2017

Since the last formal valuation, real bond yields have fallen placing a higher value on liabilities and there have been strong asset returns, particularly during 2016/17. Both events are of a broadly similar magnitude with regards to the impact on the funding position.

The next actuarial valuation will be carried out as at 31 March 2019. 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
17 April 2017

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 2016. The main purpose of the valuation is to set employer contribution rates for 2017 to 2020 and also to calculate the funding position within the Fund. The valuation prior to this date was undertaken at 31 March 2013.

Details about the financial assumptions used by the Actuary can be found within the Valuation Report 2016, 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 2016 to 30 September 2017.

Summary

Valuation date	31 Mar 2013	**31 Mar 2016**	**Estimated Inter - valuation 30 Sept 2017**
	£m	**£m**	**£m**
Market Value of Assets	461	573	687
Liabilities	752	857	990
Surplus/(deficit)	(291)	(284)	(303)
Funding Level	61.2%	**66.8%**	**69.4%**

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 2017, the funding level has increased to 69.4%. This is largely as a result of higher than expected investment returns. The funding update does not allow for changes in individual members' data since the 2016 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 19 and published in the autumn of 2019.

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 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.

(1) An administering authority must prepare a written statement setting out —

(a) whether the authority delegates its functions, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority;

(b) if the authority does so:

(i) the terms, structure and operational procedures of the delegation,

(ii) the frequency of any committee or sub-committee meetings,

(iii) whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights;

(c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying; and

(d) details of the terms, structure and operational procedures relating to the local pension board established under regulation 53(4) (Scheme managers).

(2) An administering authority must keep a statement prepared under paragraph (1) under review, and make such revisions as are appropriate, following a material change to any of the matters mentioned in that paragraph.

(3) Before preparing or revising a statement under this regulation, an administering authority must consult such persons as it considers appropriate.

(4) An administering authority must publish its statement under this regulation, and any revised statement.

Under Regulation 106 of the Local Government Pension Scheme (LGPS) (Amendment) (Governance) Regulations 2015 required Administering Authorities to establish a Local Pension Board (LPB) by no later than 1 April 2015.

(1) Each administering authority shall no later than 1st April 2015 establish a pension board (“a local pension board”) responsible for assisting it:

(a) to secure compliance with:

(i) these Regulations,

(ii) any other legislation relating to the governance and administration of the Scheme and any connected scheme (**a**), and

(iii) any requirements imposed by the Pensions Regulator in relation to the Scheme and any connected scheme; and

(b) to ensure the effective and efficient governance and administration of the Scheme and any connected scheme

The expenses of a local pension board are to be regarded as part of the costs of administration of the fund held by the administering authority

The Governance Compliance Statement was amended in November 2017 to reflect changes to membership of the Committee and includes Governance arrangements that cover the Local Pension Board (LPB).

The Governance Compliance statement includes:

- 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 is 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.

Training and development took place during 2017/18 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 2017/18

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
19 April 2017	DG Publishing "Question Time – Progress on pooling"	Royal Society of Medicine, 1 Wimpole Street	KSF 1	Free	Cllr Stephanie Nunn
18 September 2017	New Councillor Induction	Havering Town Hall	KSF ALL	Officer Time	Cllr Joshua Chapman
19 September 2017	Officers – Pension Fund Accounts 2016/17 Briefing covered: • Overview of the Pension fund Accounts	Havering Town Hall – prior to Pensions Committee meeting	KSF 2	Officer Time	Cllr David Johnson (vice chair) (also Audit Cttee member) Cllr Stephanie Nunn Cllr Clarence Barrett (also Audit Cttee member) Cllr Graham Williamson (Audit Cttee member) Cllr Viddy Persaud (Audit Cttee Member)
21 November 2017	Hymans Actuary – Admissions and TUPE polices	Havering Town Hall – prior to Pensions Committee meeting	KSF 6	Part of Contract	Cllr John Crowder (Chair) Cllr Davis Johnson (vice chair) Cllr Melvin Wallace Cllr Stephanie Nunn
13 March 2018	Hymans Advisor - Real Assets-covered: • What are Real Assets (in particular Real Estate and Infrastructure) • Why are we investing in Real Assets • Getting exposure • What to look for in a manger	Havering Town Hall – prior to Pensions meeting Committee to interview/appoint Real asset managers	KSF 5	Part of contract	Cllr John Crowder (chair) Cllr David Johnson (vice chair) Cllr Melvin Wallace Cllr Stephanie Nunn John Giles (UNISON) Andy Hampshire (GMB Union representative)

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DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
15 March 2018	SPS conferences – Local Authority Pension Fund – Investment issues: LDI & Hunt for Yield Active Share Strategies & factor investing Capital Allocation & Pooling update A consultants view & LGPS Perspectives	Le Meridian, Piccadilly, London	KSF 5	Free	Cllr Johnson 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 2017/18 and the report coverage and attendance at those meetings are shown in the following table:

DATE	TOPIC	ATTENDED BY
15 June 2017	• Pension Fund Performance Monitoring for the quarter ending 31 March 2017, received presentations from Multi Asset managers GMO (Global Real Return) • Agreed the Business Plan/Annual Report on the work of the Pensions Committee 2016/17 • Considered the options for the future of the Pensions Administration service. • Considered an Independent Review of the Investment Strategy and agreed to progress implementation of Investment Strategy changes	Cllr John Crowder (chair) Cllr David Johnson (vice chair) Cllr Steven Kelly (sub for Cllr Wallace) Cllr Phillipa Crowder (sub for Cllr Frost Cllr Clarence Barrett Cllr Stephanie Nunn Andy Hampshire (GMB union representative)
6 September 2017 (Special meeting)	• Interview/Appointment of Passive Equity Managers	Cllr John Crowder (chair) Cllr Ray Morgan (sub for Cllr Nunn) Cllr Nic Dodin Cllr Alex Donald (sub for Cllr Barrett)
19 September 2017	• Pension Fund Performance Monitoring for the quarter ending 30 June 2017, received presentations from Ruffer (Multi Asset Manager). • Noted Pension Fund Accounts for the year ending 31 March 2017. • Agreed the Pension Fund Annual Report for the year ending 31 March 2017. • Considered and agreed to become members of the Local Authority Pension Fund Forum (LAPFF) • Considered impact of the implementation of the Markets in Financial Instrument Directive (MiFID11)	Cllr John Crowder (chair) Cllr David Johnson (vice chair) Cllr Melvin Wallace Cllr Joshua Chapman Cllr Clarence Barrett Cllr Stephanie Nunn Cllr Nic Dodin (from 7:25pm)
21 November 2017	• Noted the views of officers on the performance of the Fund's Actuary for the period to September 2017. • Noted the views of officers on the performance of the Fund's Custodian for the period to September 2017. • Noted the views of officers on the performance of the Fund's Investment Advisor for the period to September 2017. • Considered and agreed changes as necessary to the Governance Compliance Statement. • Agreed changes to the Investment Strategy Statement. • Agree to join the National Framework for Actuarial and Investment Advisory Services • Noted the Employer outsourcing guide for Local Government Pension Scheme Employers • Noted results of the Whistle Blowing Annual Review • Noted admission of Harrison Catering Services to the Pension Fund.	Cllr John Crowder (chair) Cllr David Johnson (vice chair) Cllr Melvin Wallace Cllr Joshua Chapman Cllr Clarence Barrett Cllr Stephanie Nunn Cllr Nic Dodin John Giles (UNISON)

12 December 2017	• Pension Fund Performance Monitoring for the quarter ending 30 September 2017, received presentations from the Fund's pooling operator London CIV for both the Baillie Gifford Global Alpha Fund and the Diversified Growth Fund. • Noted the Valuation Funding update from 31 March 16 to 30 September 2017. • Noted Annual Responsible Investment Manager review • Noted Local Pension board Annual Report for the year ended 31 March 2017 • Noted the legal settlement of a cessation of an employer from the Fund.	Cllr John Crowder (chair) Cllr David Johnson (vice chair) Cllr Melvin Wallace Cllr Joshua Chapman Cllr Clarence Barrett Cllr Stephanie Nunn John Giles (UNISON) Andy Hampshire (GMB Union representative)
12 March 2018 (Special)	• Interview/Appointment of Investment Manager - Real Asset Mandate	Cllr John Crowder (chair) Cllr David Johnson (vice chair) Cllr Melvin Wallace Cllr Stephanie Nunn John Giles (UNISON) Andy Hampshire (GMB Union representative)
13 March 2018	• Noted the Pension Fund Audit Plan 2017/18 • Agreed the Business Plan/Annual Report on the work of the Pensions Committee 2017/18 • Noted the approval of a one year extension of the existing contract for the provision of Investment Advice with Hymans Robertson until 31 March 2019. • Noted the Chairman's response to the LCIV questionnaire on their proposals on its governance arrangements and longer term strategy. • London CIV update/ future direction of the LCIV (exempt). • Pension Fund Performance Monitoring for the quarter ending 31 December 2018, received presentations from Royal London (Bond Manager).	Cllr John Crowder (chair) Cllr David Johnson (vice chair) Cllr Melvin Wallace Cllr Joshua Chapman Cllr Clarence Barrett Cllr Stephanie Nunn Andy Hampshire (GMB Union representative

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 2017/18 and the plan of work for the following year (2018/19). 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 31March 2018

2016/17 £000		Notes	2017/18 £000
	Dealings with members, employers and others directly involved in the fund		
39,293	Contributions receivable	7	41,649
1,623	Transfers in from other pension funds	8	2,654
40,916			44,303
(36,409)	Benefits	9	(36,486)
(3,856)	Payments to and on account of leavers	10	(3,808)
(40,265)			(40,294)
651	**Net additions (withdrawals) from dealings with members**		**4,009**
(3,925)	Management expenses	11	**(4,304)**
(3,274)	Net additions/(withdrawals) including fund management expenses		**(295)**
	Returns on investments		
6,480	Investment income	12	9,331
(22)	Taxes on Income	13	-
95,254	Profit and losses on disposal of investments and changes in the market value of investments	14a	26,693
101,712	**Net returns on investments**		**36,024**
98,438	**Net increase (decrease) in the net assets available for benefits during the year**		**35,729**
572,941	Opening net assets of the Fund at start of year		671,379
671,379	**Closing net assets of the Fund at end of year**		**707,108**

Net Asset Statement for the year ended 31 March 2018

2016/17 £000		Notes	2017/18 £000
658,621	Investment Assets	14	689,295
(113)	Investment Liabilities	14	-
658,508	**Total net investments**		**689,295**
13,136	Current Assets	21	18,141
(265)	Current Liabilities	22	(328)
671,379	**Net assets of the Fund available to fund benefits at end of the reporting period**		**707,108**

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.

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 Statutory Section 151 officer.

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 2017/18 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 2017/18 six new employers joined the fund and one ceased.

There are 46 employer organisations with active members within the Havering Pension Fund including the Authority. The membership profile is detailed below.

31 March 2017		31 March 2018
***41**	**Number of employers with active members**	**46**
	Number of employees in scheme	
4,521	Havering	4,746
1,596	Scheduled bodies	1,745
100	Admitted bodies	71
6,217	**Total**	**6,562**
	Number of pensioners and dependants	
5,659	Havering	5,769
403	Scheduled bodies	462
39	Admitted bodies	16
6,101	**Total**	**6,247**
	Deferred pensioners	
5,129	Havering	5,221
1,005	Scheduled bodies	1,115
62	Admitted bodies	48
6,196	**Total**	**6,384**
18,514	**Total number of members in pension scheme**	**19,193**

*Restated from 39 to 41 due to late identification of new member data.

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 2018. Employer contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2016. Current employer contribution rates range from 17.5% to 38.2% of pensionable pay.

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 1/49th. 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.

2 Basis of Preparation

The Statement of Accounts summarises the fund's transactions for the 2017/18 financial year and its position at year end as at 31 March 2018. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting* in *the United Kingdom* 2017/187 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 fir 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 it 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.

Accounting Standards issued but not yet adopted

At the balance sheet date, the following new standard and amendment to existing standards had been published but not yet adopted by the code of practice on local Authority Accounting in the United Kingdom:

IFRS9 – Financial Instruments – introduces changes to the classification and measurement of financial assets, and a new "expected credit loss" model for impairing financial assets. The impact will be to reclassify assets currently classified as loans and receivables to amortised cost. It is not expected that the impact of the new standard to have a material impact and the fund does not at this stage anticipate any adjustments for impairments.

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 2018 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	The effects on the present value of promised retirement benefits of changes in actuarial assumptions can be significant. Changes in assumptions could have the approximate following impacts on the Fund's employer liability as follows: • 0.5% decrease in the real discount rate could result in an increase of 9% • 0.5% increase in salary increase rate could result in an increase of 1% • 0.5% increase in the pension increase rate could result in an increase of 8%	96 11 83

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), 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

2016/17 £000		2017/18 £000
	Employees' contributions	
	Normal:	
5,325	Havering	5,292
1,425	Scheduled Bodies	1,533
117	Admitted Bodies	92
	Additional contributions:	
24	Havering	19
19	Scheduled bodies	4
6,910	**Total Employees' Contribution**	**6,940**
	Employers' contributions	
	Normal:	
10,840	Havering	12,608
5,675	Scheduled bodies	6,073
334	Admitted bodies	370
	Deficit funding:	
14,157	***Havering**	14,303
	Augmentation	
1,130	Havering	715
247	Scheduled bodies	633
-	Admitted bodies	7
32,383	**Total Employers' Contributions**	**34,709**
39,293	**Total Contributions Receivable**	**41,649**

*The £14.30m deficit funding in 2017/18 reflects additional contributions made by the Authority to the Pension Fund. It consists of £9.65m secondary contributions and £4.65m in voluntary planned contributions.

By authority

2016/17 £000		2017/18 £000
31,476	Havering	32,937
7,366	Scheduled bodies	8,243
451	Admitted Bodies	458
39,293	Total Contributions Receivable	**41,649**

8. Transfers in from Other Pension Funds

2016/17 £000		2017/18 £000
1,623	Individual transfers	2,654
1,623	Transfers In from Other Pension Funds	**2,654**

9. **Benefits Payable**

By category

2016/17 £000		2017/18 £000
	Pensions	
27,487	Havering	28,306
1,091	Scheduled Bodies	1,169
588	Admitted Bodies	637
29,166	**Pension Total**	**30,112**
	Commutation and Lump Sum Retirements	
5,968	Havering	4,328
939	Scheduled Bodies	864
164	Admitted Bodies	247
7,071	**Commutation and Lump Sum Retirements Total**	**5,439**
	Lump Sum Death Benefits	
143	Havering	831
29	Scheduled Bodies	104
172	**Lump Sum Death Benefits Total**	**935**
36,409	**Total Benefits Payable**	**36,486**

By authority

2016/17 £000		2017/18 £000
33,598	Havering	33,465
2,059	Scheduled bodies	2,137
752	Admitted Bodies	884
36,409	Total Benefits Payable	**36,486**

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

2016/17 £000		2017/18 £000
81	Refunds to members leaving service	46
3,775	Individual transfers	3,762
3,856	**Payments to and on Account of Leavers**	**3,808**

At the year end there are potential liabilities of a further £0.65m in respect of individuals transferring out of the Pension Fund upon whom the Fund is awaiting final decisions (See Note 26).

11. Management Expenses

2016/17 £000		2017/18 £000
562	Administrative Costs	532
3,003	Investment Management Expenses	3,346
352	Oversight and Governance Costs	421
8	Local Pension Board	5
3,925	**Management Expenses**	**4,304**

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 £0.096m (2016/17 £0.084m) in respect of performance-related fees paid/payable to the fund's investment managers. It also includes £0.073m in respect of transaction costs (2016/17 £0.144m).

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

2016/17 £000		2017/18 £000
2,814	Management Fees	3,188
11	Performance measurement fees	16
34	Custody fees	20
144	Transaction costs	122
3,003	**Investment Management Expenses**	**3,346**

12. Investment Income

2016/17 £000		2017/18 £000
2,444	Pooled Investments – unit trusts and other managed funds	3,577
*3,572	Income from Bonds	3,260
1,387	Pooled Property Investments	2,238
(1,070)	Income from derivatives (Foreign Exchange Gains/(losses))	140
95	Interest on Cash Deposits	113
52	Other Income	3
6,480	**Investment Income**	**9,340**

***** Income includes Index linked Interest of £0.161m (2016/17 £0.182m)

13. Taxes on Income

2016/17 £000		2017/18 £000
(22)	Withholding Tax	-
(22)	**Taxes on Income**	**-**

14. Analysis of Investments

2016/17 £000		2017/18 £000
	Investment Assets	
	Bonds - Fixed Interest Securities	
11,863	UK Public Sector	15,322
65,845	UK Private (Corporate)	70,255
1,264	Overseas Public Sector	-
78,972		**85,577**
	Bond - Index-Linked Securities	
35,774	UK Public Sector	30,857
777	UK Private (Corporate)	764
389	Overseas Public Sector	2,053
36,940		**33,674**
	Derivative Contracts	
63	Forward Currency Contracts	18
63		**18**
	Pooled Investment	
500,444	UK Unit trusts - Quoted	524,615
152	UK Unit Trusts - Unquoted	152
38,641	Pooled property investments	40,796
539,237		**565,563**
2,039	Cash deposits Managers	3,215
-	Amounts receivable for sales	68
1,009	Investment income due	1,172
361	Outstanding Dividend and Recoverable Withholding Tax	8
3,409		**4,463**
658,621	**Total Investment Assets**	**689,295**
	Investment Liabilities	
(113)	Amount payable for purchases	**-**
(113)	**Total Investment Liabilities**	**-**
658,508	**Total Net Investments**	**689,295**

14a. Reconciliation of movements in investments and derivatives

	Market Value at 31 March 2017 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in Market Value during the year £000	Cash & Other Movements £000	Market Value at 31 March 2018 £000
Fixed Interest Securities	78,972	34,803	(27,813)	(385)	-	85,577
Index-linked Securities	36,940	17,293	(20,533)	(26)	-	33,674
Pooled Investment Vehicles	539,237	22,094	(22,917)	27,149	-	565,563
Derivatives – forward currency contracts	63	2,007	(2,007)	(45)	-	18
Cash Deposits (fund managers)	2,039	-	-	-	1,176	3,215
	657,251	**76,197**	**(73,270)**	**26,693**	**1,176**	**688,047**
Other Investment Balances	1,257	-	-	-	(9)	1,248
	658,508	**76,197**	**(73,270)**	**26,693**	**1,167**	**689,295**

	Market Value at 31 March 2016 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in Market Value during the year £000	Cash & Other Movements £000	Market Value at 31 March 2017 £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
	558,872	**258,409**	**(338,606)**	**95,253**	**83,323**	**657,251**
Other Investment Balances	1,843	-	-	1	(587)	1,257
	560,715	**258,409**	**(338,606)**	**95,254**	**82,736**	**658,508**

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 £0.122m, including transition costs (2016/17 £0.144m). 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 2018 were as follows:

14b. Investments analysed by Fund Manager

Value 31 March 2017		Manager	Mandate	Value 31 March 2018	
£000	**%**			**£000**	**%**
127,458	19.36	Royal London	Investment Grade Bonds	131,077	19.02
39,274	5.96	UBS	Property	40,796	5.92
97,009	14.73	State Street Global Assets	Passive UK/Global Equities	-	-
102,489	15.56	GMO	Multi Asset	108,696	15.77
292,267	44.38	London CIV	Pooled Global Equities	309,837	44.95
		Legal & General Investment Management	Passive UK/Global Equities	98,879	14.34
11	0.01	Other		10	0.00
658,508	**100.00**	**Total Fund**		**689,295**	**100.00**

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 2017 £000	% of total fund	Security	Market Value 31 March 2018 £000	% of total fund %
292,267	44	London CIV	-	-
-	-	London CIV Global Alpha Fund	126,973	18
102,486	16	GMO Global Real Return (UCITS) Fund	108,696	15
-	-	London CIV Ruffer Absolute Return Fund	95,216	13
-	-	London CIV Diversified Growth Fund	87,498	12
97,009	15	SSGA MPF All World Equity Index	-	-
-	-	LGIM FTSE RAFI AW 3000 Index	49,486	7
-	-	LGIM All World Equity Index	49,393	7
39,274	6	UBS Property	40,796	6

14c. Stock Lending

We do not carry out stock lending directly. We are investors of a pooled fund with the passive equity manager, Legal and General Investment Management (LGIM), who carry out stock lending as part of the Fund's activities. Stock Lending occurs in limited number of overseas equities index funds.

The Stock Lending programme is managed and administered by the custodian of the funds (Citibank) within the risk control parameters set by LGIM. The programme has been operating for over 10 years and enjoys an indemnity from Citibank. Stock lending is only undertaken with counterparties who have satisfied the requirements in terms of market capability and minimum credit standing.

All income arising from stock lending less the custodian/administrator's costs are credited to the funds lending the stocks. LGIM does not receive any revenue from the stock lending. As at 31 March 2018, the value of quoted equities on loan was £75.7m. These equities continue to be recognised in the fund's financial statements.

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 2018 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 three months	GBP	2,008	USD	1,990	18	-
Gross open forward currency contracts at 31 March 2018						**-**
Net forward currency contracts at 31 March 2018					**18**	**-**
Prior year comparative						
Gross open forward currency contracts at 31 March 2017					**63**	**-**
Net forward currency contracts at 31 March 2017					**63**	**-**

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
Market quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Pooled instruments- property funds	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 2018.

	Assessed valuation range (+/-) %	Value at 31 March 2018 £000	Value on increase £000	Value on decrease £000
Pooled Investments – Property Funds	3.65	40,795	42,285	39,307

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.

Values at 31 March 2018	Quoted Market price Level 1 £000	Using observable inputs Level 2 £000	With significant unobservable inputs Level 3 £000	Total £000
Financial Assets				
Financial assets at fair value through profit and loss	643,884	152	40,796	684,832
Loans and receivables	22,604	-	-	22,604
Total Financial Assets	**666,488**	**152**	**40,796**	**707,436**
Financial Liabilities				
Financial liabilities at amortised cost	(328)	-	-	(328)
Total Financial Liabilities	**(328)**	**-**	**-**	**(328)**
Net Financial Assets	**666,160**	**152**	**40,796**	**707,108**

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

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 2017				31 March 2018		
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
			Financial Assets			
78,972	-	-	Fixed Interest Securities	85,577	-	-
36,940	-	-	Index linked securities	33,674	-	-
63	-	-	Derivative contracts	18	-	-
500,596	-	-	Pooled investment Vehicles	524,767	-	-
38,641	-	-	Property	40,796	-	-
-	2,039	-	Cash		3,215	-
-	1,370	-	Other Investment Balances		1,248	-
-	13,136	-	Debtors		18,141	-
655,212	**16,545**	**-**	**Financial Assets Total**	**684,832**	**22,604**	**-**
			Financial Liabilities			
-	-	-	Derivative contracts	-	-	-
-	-	(113)	Other Investment Balances	-	-	-
-	-	(265)	Creditors	-	-	(328)
-	**-**	**(378)**	**Financial Liabilities Total**	**-**	**-**	**(328)**
655,212	**16,545**	**(378)**	**Grand total**	**684,832**	**22,604**	**(328)**
671,379				**707,108**		

(b) Net Gains and Losses on Financial Instruments

2016/17 £000		2017/18 £000
	Financial assets	
95,254	Fair value through fund account	26,693
-	Loans and receivables	-
	Financial liabilities	
-	Fair value through fund account	-
-	Loans and receivables	**-**
95,254	**Total**	**26,693**

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. Polices 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 2018 Potential market movements (+/-) %	31 March 2017 Potential market movements (+/-) %
Global Equities inc. UK	7.47	9.68
Fixed Interest Bonds	8.12	9.25
Index Linked Bonds	14.01	14.29
Global Pooled inc UK	4.74	4.93
Property	3.65	3.05
Cash	0.00	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 2018 £000	Change %	Value on Increase £000	Value on Decrease £000
Fixed Interest Bonds	85,577	8.12	92,526	78,628
Index linked Bonds	33,674	14.01	38,392	28,956
Global Pooled inc.UK	524,767	4.74	549,641	499,893
Property	40,796	3.65	42,285	39,307
Cash	3,215	0.00	3,215	3,215
Total	**688,029**		**726,059**	**649,999**

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
Total	**657,188**		**695,631**	**618,747**

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 2018 and 31 March 2017 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 2018 £000	Potential movement on 1% change in interest rates £000	Value on increase £000	Value on Decrease £000
Bond Securities	119,252	1,193	120,444	118,059
Cash and Cash Equivalents	3,215	32	3,246	3,182
Cash Balances	17,658	177	17,835	17,481
Total Change in Asset Value	**140,125**	**1,402**	**141,525**	**138,722**

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
Total Change in Asset Value	**130,773**	**1,307**	**132,081**	**129,466**

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 12.29% over a rolling 36 month period.

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

A 12.29% 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 2018 £000	Potential Market movement at 9.20% £000	Value on increase £000	Value on Decrease £000
Overseas Index Linked Bonds	2,053	252	2,306	1,801
Overseas Cash	1	-	-	-
Total change in assets available to pay benefits	**2,054**	**252**	**2,306**	**1,801**

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
Total change in assets available to pay benefits	**1,658**	**152**	**1,810**	**1,506**

(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 2018 the value of liquid assets was £666m, which represented 94% of the total Fund (31 March 2017 £618m, which represented 94% 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 2017/18

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;
- 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 62 of the Local Government Pension Scheme Regulations 2013 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:

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 assumption 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

** Aged 45 at the 2016 Valuation*

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from the Administrating Authority to the Fund.

Experience over the period since 31 March 2017

Since the last formal valuation, real bonds yields have fallen placing a higher value on the liabilities and there have been strong asset returns, particularly during 2016/17. Both events are of broadly similar magnitude with regards to the impact on the funding position.

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 2017 £m	Year Ended	31 March 2018 £m
1,206	Present Value of Promised Retirement Benefits	1,226
671	Fair Value of Scheme assets (bid Value)	707
535	Net Liability	519

The promised retirement benefits at 31 March 2018 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 2018 and 31 March 2017. It is estimated that the impact of the change in financial assumptions to 31 March 2018 is to increase the actuarial present value by £22m. There is no impact from any change in the demographic and longevity assumptions because they are identical to the previous period.

Financial assumptions

The actuary's recommended financial assumptions are summarised below:

Year Ended	31 March 2018 % p.a.	31 March 2017 % p.a.
Pension Increase Rate	2.4	2.4
Salary Increase Rate	2.7	2.7
Discount Rate	2.6	2.5

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 reached a peak 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	8	94
0.5% p.a. increase in the Salary Increase Rate	1	14
0.5% p.a. decrease in the Real Discount Rate	9	115

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 2018 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

2016/17 £000		2017/18 £000
	Debtors:	
224	Contributions due from employers	294
71	Contributions due from employees	80
-	Pension Fund Bank Account Balances	104
18	Sundry Debtors	29
12,823	Cash deposit with LB Havering	17,634
13,136	**Current Assets**	**18,141**

2016/17 £000	Analysis of Debtors	2017/18 £000
224	Public corporation and trading funds	294
71	Other entities and individuals	80
295	**Total Debtors**	**374**

22. Current Liabilities

2016/17 £000		2017/18 £000
	Creditors:	
(80)	Unpaid Benefits	(84)
(132)	Sundry Creditors	(164)
(53)	Holding Accounts	(80)
(265)		**(328)**

2016/17 £000	Analysis of Creditors	2017/18 £000
(265)	Other entities and individuals	(328)
(265)	**Total**	**(328)**

23. Additional Voluntary Contributions

Market Value 2016/17 £000	AVC Provider	Market Value 2017/18 £000
801	Prudential	810
202	Standard Life	167

Some employees made additional voluntary contributions (AVC's) of £47,519 (2016/17 £52,413) 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 2017/18 were £40,744 to the Prudential (2016/17 £38,515) and £6,775 (2016/17 £13,898) 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.

2016/17 £000		2017/18 £000
1,410	Payments on behalf of Havering Council	1,380

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 2017/18, £0.450m was paid to the Authority for the cost of administrating the Fund (2015/16 £0.459m).

The Authority is also the largest employer in the Fund and in 2017/18 contributed £26.911m (2016/17 £24.997m) 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 2018 cash holdings totalled £17.7m (2016/17 £12.8m), earning interest over the year of £0.113m (2016/17 0.094m).

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 Statutory Section 151 officer until 31 March 2018 and the Managing Director of onesource.

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 2018.

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 £0.65m 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

Two 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 £0.26m and are drawn down in favour of the Pension Fund. Payment will only be triggered in the event of employer default.

Three admitted bodies, which are subject to pending legal agreements, will hold bonds or guarantees totalling £2.6m.

28. Impairment Losses

There were no material impairment losses for bad and doubtful debts as at 31 March 2018.

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.

Councillor John Crowder
Chairman, Pensions Committee
Date: …

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 2018 and its income and expenditure for the year ended 31 March 2018.

Jane West
Chief Operating Officer/Section 151 Officer
Date: ……

INDEPENDENT AUDITORS'S STATEMENT TO THE MEMBERS OF THE LONDON BOROUGH OF HAVERING ON THE PENSION FUND FINANCIAL STATEMENTS

REPLACE with 2017/18 comments

I have examined the pension fund financial statements for the year ended 31 March 2017, which comprise the Fund Account, the Net Assets Statement; and the related notes.

Respective responsibilities of the Section 151 Officer and the auditor

As explained more fully in the Statement of the Section 151 Officer's Responsibilities, the Section 151 Officer is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

My responsibility is to report to you my 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 the 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 2016-17.

I also read the other information contained in the pension fund annual report and consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists only of the Trustee Report; the Management and Financial Performance Report; the Investment Policy and Performance Report; the Scheme Administration Report; the Actuarial Report; the Governance Compliance Statement; the Pensions Administration Strategy; the Funding Strategy Statement; the Statement of Investment Principles; the Communication Policy Statement, Contact points for Further Information; and Appendices.

I conducted my work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. My report on the administering authority's full annual statement of accounts describes the basis of our opinion(s) on those financial statements.

Opinion

In my opinion, the pension fund financial statements are consistent with the full annual statement of accounts of the London Borough of Havering for the year ended 31 March 2017 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016-17.

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 will be reviewed once the migration of data to LPP systems has taken place in July 2018.

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 members receive 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 2016 valuation process and produced in line with the revised and updated guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in 2016. The FSS was effective from 1 April 2017.

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.

Investment Strategy Statement

The Local Government Pensions Scheme (LGPS) (Management and Investment of Funds) Regulations 2016 came into force in November 2016 and guidance was issued by the Department for Communities and Local Government (DCLG) in September 2016.

Under Regulation 7 - The authority's Investment Strategy Statement (ISS) must show:

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;
f) a policy on the exercise of the rights (including voting rights) attaching to investments.

The Investment Strategy Statement replaced the former Statement of Investments Principles in March 2017. The ISS has been formulated after taking advice from the Funds investment advisors Hymans Robertson LLP and in accordance with guidance issued by DCLG. The ISS was last updated in November 2017 and will continue to be updated as the investment strategy is implemented.

Since the LGPS (Management and Investment of Funds) Regulations 2016 came into force it is no longer a statutory requirement to publish its compliance against the **Myners principles** alongside the ISS. Publication is therefore voluntary.

In demonstrating best practice the Fund has published its compliance against the Myners principles, having regard to CIPFA's guide to the application of the Myners Principles 'investment decision making and disclosure' in December 2009.

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 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 24th November 2015 for the period 2016 – 2018. A review of the Communication Strategy achievements for 2017/18 is shown below.

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

This Statement has also been published on the Authority's website by selecting the link Havering Pension Fund

Communication Policy Delivery

Communication Responsibilities	Paper	Electronic	Web	Face	Achieved
Action 1 – Get ready for new challenges for active members					
Review employee communications methods to ensure that they are efficient as well as effective			✓		Continuing to review and update pension website for content and to make it easier to find information.
Promote use of the LBH pension website www.yourpension.org.uk/handr and the Council's Pension Fund pages, www.havering.gov.uk/pension_fund		✓	✓		Continue to promote websites at all meetings and in all communications – (letters and phone calls). 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			✓		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	✓	✓	✓		Annual Benefit statements are now only available via Member Self Service unless they opt to have a paper version sent to them
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

Communication Responsibilities	Paper	Electronic	Web	Face	Achieved
					manage support and communications.
Action 2 – Get ready for new challenges for employers					
Maximise the use of the newly developed ERM Pensions Team employer communication database on ALTAIR		✓			This was not utilised. LPP maintain their own database to communicate with Employers. They send annual surveys to ensure contact details are up to date. The database is shared with the administration team.
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		✓	✓	✓	All new Employers are met with and given detailed explanations as to their obligations to their employees and their scheme responsibilities. Investigate production of a pensions administration strategy in 2018/19 once the migration of data to LPP systems has taken place
Continually review and improve the material and service available to employers via the LBH pension website(www.yourpension.org.uk/handr, and the Council website, www.havering.gov.uk/pages/servoces/pension-fund.aspx			✓		An employer tab continually reviewed and updated when required on the pension website A Local Pension Board tab was created, holding links to agendas and minutes of all LPB meetings, board member contact details, and the role and responsibilities of the board members. This is updated when there is a change of members. A new TUPE manual has been produced to support scheme employers to understand their responsibilities and implications when outsourcing; this is available via the website.

Communication Responsibilities	Paper	Electronic	Web	Face	Achieved
Collate Employer Discretion Documents		✓	✓	✓	Published policies and Employer discretions, where available, are on the pension website. Following the publication of the Amendment Regulations, all employers need to review their policies and discretions during 2018/19. Any employer that has yet to publish their discretions will be reminded of their responsibility to do so.
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				✓	This is delivered through the LPP Employer Risk Manager function. Also the Pensions Projects and Contracts Manager have visited Employers when required.
Action 3 – Get ready for new challenges for pensioners					
Explore development of member online access to the pension administration system in line with self-service					Unless the payroll is processed via Altair, then this action will not add any benefit. Review of payroll processing will take place in 2018/19.

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

Communication material	**Paper**	**Electronic**	**Web**	**Face**	**frequency**	**Intended Audience, :** Active = **A**, Deferred = **D** Pensioner = **P**, Prospective members = **PM** Employers = **E** Or - **ALL**
Pension updates	✓	✓	✓		**When required**	All but targeted as appropriate
Annual Benefit Statement	✓	✓			**Annually, July / August**	A and D
Notice of Pension Increase	✓		✓		**Annually**	P
Letters / Enquiries	✓	✓			**As required**	ALL
Estimates	✓		✓		**As required**	A and 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				✓	**As required**	P and prospective Pensioners
Communications Strategy			✓		**Reviewed 3 yearly**	ALL
Communications Policy Statement			✓		**Reviewed annually**	ALL
Annual Report & Accounts		✓	✓		**Annually**	ALL
Whistleblowing Policy		✓	✓		**Annually**	ALL

Communication material	**Paper**	**Electronic**	**Web**	**Face**	**frequency**	**Intended Audience, :** Active = **A**, Deferred = **D** Pensioner = **P**, Prospective members = **PM** Employers = **E** Or - **ALL**
Funding Strategy Statement		✓	✓		**Triennially**	ALL
Investment Strategy Statement		✓	✓		**At least Annually**	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 provides links to relevant external agencies.

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:

Local Pensions Partnership (LPP)
Town Hall
Main Road
Romford
RM1 3BB
Telephone: 01708 433333

Email: havering@localpensionspartnership.org.uk

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

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

Telephone: 01708 432569

Email: debbie.ford@havering.gov.uk

Other useful addresses:

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

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

The Pension Service website: www.thepensionservice.gov.uk
www.gov.uk/browse/working/state-pension

APPENDICES

Havering
LONDON BOROUGH

PENSION FUND

GOVERNANCE COMPLIANCE STATEMENT

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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 Chief Finance Officer (s151).

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;

- 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.

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:

Conservative Group (3)	Resident's Group (2)	East Havering Resident's Group (1)	UKIP (1)
John Crowder (Chair) Melvin Wallace Joshua Chapman	Stephanie Nunn Nic Dodin	Clarence Barrett	David Johnson (Vice-Chair)

*From May 2017:
Cllr Joshua Chapman replaced Cllr Jason Frost May 16 – May 17 – Conservative 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.

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 than 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.

3. GUIDANCE AND MONITORING

3.1 Pensions Committee

The Pensions Committee is supported by the Chief Finance Officer (s151) and OneSource Shared Support Service. The Director of Exchequer and Transactional Services (oneSource) has the responsibility to administer the day to day operations of the Council's Pension Fund. The Director of Finance (onesource) is responsible for providing advice in the overall management of the Pension Fund supported by expert advisors. Members also receive briefings and advice from the Fund's investment advisor at each committee meeting.

The Pensions Committee also considers advice, as necessary, from the fund's appointed professional actuary 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. The reporting requirements were changed from 15 June 2017 after the Pensions Committee reviewed the current arrangements and agreed that only one fund manager will now attend each committee meeting to give greater focus to investment strategy development. 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.

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 has been developed and adopted by the Pensions Committee and the Board.

The Fund uses the CIPFA's Knowledge and Skills self-assessment training questionnaire to identify and evidence the knowledge and skills of the members. Training will be provided in the areas where it has been specifically requested or has been identified as required.

6. MEETINGS

7.1 Pensions Committee

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

7.2 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.

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 Investment Strategy Statement 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.

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 generally 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 Sectary of State.

	PRINCIPLE	HAVERING POSITION
A.	**Structure** 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.	 **Full compliance.** 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 administration of benefits of the Pension Fund is delegated to the OneSource Shared Services (Director of Exchequer and Transactional Services. Select link to Havering Website to read the Council's constitution: Havering Constitution Section 1 the Governance Compliance Statement refers.
	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.	**Full compliance.** Admitted/Scheduled bodies may appoint one representative to attend the committee meetings. The staff Trade Unions may appoint two representatives to attend and speak at meetings. The Local Pension Board includes two employer representative and two scheme member representatives. There is no secondary committee. Section 2 of the Governance Compliance Statement refers.
	c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	No secondary committee or panel has been established.
	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.	No secondary committee or panel has been established.

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	PRINCIPLE	HAVERING POSITION
B	**<u>Committee Membership and Representation</u>**	
	a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include: i) employing authorities (including non-scheme employers, e.g. admitted bodies);	i**) Full compliance** - A position has been established for Admitted/Scheduled bodies' representative to be a member of the Pensions Committee and is currently vacant. 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.
	ii) scheme members (including deferred and pensioner scheme members),	ii) **Full compliance** – via trade union representation
	iii) where appropriate, independent professional observers, and	iii**) Non-compliance** – The Pension Committee have considered this and decided that it is not appropriate to appoint an independent observer on the basis that the current monitoring arrangements are sufficient for the size of the fund.
	iv) expert advisors (on an ad-hoc basis)	iv) **Full compliance** – The Fund has appointed an Investment Advisor, an Actuary and Performance Measurers, who attend meetings as and when required. Sections 2 and 3of the Governance Compliance Statement refers.

	PRINCIPLE	HAVERING POSITION
C	**<u>Selection and role of lay members</u>** 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.	 **Full compliance**. 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. Sections 1 and 2 of the Governance Compliance Statement refer.
	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.	**Full compliance.** Declarations of interest are always an agenda item at the Pension Committee meetings. Section 1 of the Governance Compliance Statement refers.
D	**<u>Voting</u>** 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.	 **Full compliance.** The Governance Compliance Statement is clear about voting rights Section 2 of the Governance Compliance Statement refers.
E	**<u>Training/Facility time/Expenses</u>** 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.	 **Full compliance.** 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

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PRINCIPLE	HAVERING POSITION
	payment will be made for nonattendance. Reasonable travelling expenses for training will be reimbursed to Local Pension Board members. The Business Plan includes the policy on training. Sections 4 and 5 of the Governance Compliance Statement refer.
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.	**Full compliance.** As above.
c. That the administrating authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken	**Full compliance.** As above. A joint training policy 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. A training log is maintained and records attendance and training undertaken. Section 5 of the Governance Compliance Statement refers.

	PRINCIPLE	HAVERING POSITION
F	<u>**Meetings (frequency/quorum)**</u> a. That an administering authority's main committee or committees meet at least quarterly	**Full compliance.** 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.
Page 159	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.	**Full compliance**. 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: • Through invitation to committee meeting • Written correspondence – employers are invited for comments via letters and email as part of any consultation process, including proposed policy changes. 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.

	PRINCIPLE	HAVERING POSITION
G	**Access** 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.	 **Full compliance.** Committee papers are sent to members at least seven days prior to the meeting and non confidential papers are published on the Council's website. Section 8 of the Governance Compliance Statement refers.
H	**Scope** a. That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	 **Full compliance.** The Committee already considers a wider range of pension issues. Section 7 of the Governance Compliance Statement refers.
I	**Publicity** 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.	 **Full compliance.** Governance arrangements are published on the Council's website and comments are invited from stakeholders. Section 8 of the Governance Compliance Statement refers.

Havering
LONDON BOROUGH

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 and the Council's Pension Fund pages, 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, and the Council website, www.havering.gov.uk/pages/servoces/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 pension’s 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

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

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, 2nd Floor,
St Edwards Way
Romford
RM1 3AR

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

Council’s website:
www.havering.gov.uk/pages/services/pension-fund.aspx

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

Direct dial telephone numbers are quoted on letters issued by the fund.

Havering
LONDON BOROUGH

London Borough of Havering Pension Fund

Funding Strategy Statement
March 2017

HYMANS ROBERTSON

Contents

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 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

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 Appendix E)			Ongoing, but may move to “gilts basis” - see Note (a)		Ongoing, assumes fixed contract term in the Fund (see Appendix E)	
Primary rate approach	(see Appendix D – D.2)						
Stabilised contribution rate?	Yes - see Note (b)	No	No	No	No	No	
Maximum time horizon – Note (c)	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 – Note (d)	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 – Note (e)	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 – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract	
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)	
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).			Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on 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 (j).

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

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 they 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 (j)) 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.

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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.havering.gov.uk/info/20044/council_information/222/pension_fund and http://www.yourpension.org.uk/handr/Havering-Publications/Havering-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.havering.gov.uk/info/20044/council_information/222/pension_fund and http://www.yourpension.org.uk/handr/Havering-Publications/Havering-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.	Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing. Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc. Analyse progress at three yearly valuations for all employers. Inter-valuation roll-forward of liabilities between valuations at whole Fund level.
Inappropriate long-term investment strategy.	Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure four key outcomes. Chosen option considered to provide the best balance.
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context. Inter-valuation monitoring, as above. Some investment in bonds helps to mitigate this risk.
Active investment manager under-performance relative to benchmark.	Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.
Pay and price inflation significantly more than anticipated.	The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases. Inter-valuation monitoring, as above, gives early warning. Some investment in bonds also helps to mitigate this risk.

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	The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future. If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).
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.	Set mortality assumptions with some allowance for future increases in life expectancy. 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.
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	Employers are charged the extra cost of non ill-health retirements following each individual decision. Employer ill health retirement experience is monitored, and insurance is an option.
Reductions in payroll causing insufficient deficit recovery payments	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: Employers in the stabilisation mechanism may be

Risk	Summary of Control Mechanisms
	brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3). For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

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.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. 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.
Time, cost and/or reputational risks associated with any DCLG intervention triggered by the Section 13 analysis (see Section 5).	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.	The Administering Authority considers all consultation papers issued by the Government and comments where appropriate. Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.

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.	The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data. The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations Deficit contributions may be expressed as monetary amounts.
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	with its specialist advisers. Advice is delivered via formal meetings involving Elected Members, and recorded appropriately. Actuarial advice is subject to professional requirements such as peer review.
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes. Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.
An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure. The risk is mitigated by: Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3). Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. Vetting prospective employers before admission. Where permitted under the regulations requiring a bond to protect the Fund from various risks. Requiring new Community Admission Bodies to have a guarantor. Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3). Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).

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

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of **the funding target**. The main assumptions will relate to the **discount rate**, salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers 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 2.3).
Bond Indemnity	To cover early termination of a contract due to, but not limited to, • funding strain arising from the early payment of liabilities that will arise as a consequence of redundancy if the Employer goes into liquidation, insolvency or winds up. Employees over age 55 are eligible for immediate payment of pension in the event of being made redundant; • any general funding shortfall, arising from variations between experience and assumptions used when determining the ongoing Employer's contribution rate; and • a provision to cover the potential liability due to adverse market conditions over the period until the next actuarial valuation. This bond does not cover any final cessation payments at the end of a contract.
Cessation Valuation	At the natural end of a contract or when the last active member of an Employer retires, a cessation valuation is carried out to determine the final contribution due from the Employer. The final contribution due may be subject to a 'pass-through' arrangement with the scheme employer.
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a **funding target** 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 **Primary and Secondary rates**.

Employer	An individual participating body in the Fund, which employs (or used to employ) **members** of the Fund. Normally the assets and **funding target** values for each employer are individually tracked, together with its **Primary rate** at each **valuation**.
Funding target	The actuarially calculated present value of all pension entitlements of all **members** of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the **deficit**. It is calculated on a chosen set of **actuarial assumptions**.
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's **covenant** to be as strong as its guarantor's.
Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy. The letting employer will meet the actuarial fees for setting contribution rates and any bond reviews.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Pass-through	A risk sharing agreement between the letting employer and the contractor.
Primary contribution rate	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.

Profile	The profile of an employer's membership or liability reflects various measurements of that employer's **members**, ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its **maturity** also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal **valuation**. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Secondary contribution rate	The difference between the employer's actual and **Primary contribution rates**. See Appendix D for further details.
Stabilisation	Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.
Valuation	An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 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.

INVESTMENT STRATEGY STATEMENT

Investment Strategy Statement: November 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 21 November 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 Committee has approved a long-term investment strategy following a review of the Fund's investment strategy in 2017. The long-term investment strategy is intended to support the Fund's required investment return target, whilst adding diversification through investment in alternative real estate and credit asset classes. The Fund's long-term investment strategy also incorporates a larger allocation to illiquid asset classes, with an expectation that these will deliver an additional risk premium.

It is expected that the long-term investment strategy will be fully implemented over the course of 2018.The Fund's current and long-term target investment strategies are set out in Table 1 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: Current target investment strategy

Asset class	Current target investment strategy[1] %	Long-term target investment strategy[2] %	Maximum %
Global Equity	30.0	40.0	45.0
Multi Asset	42.5	20.0	50.0
Real Assets	8.5	17.5	25.0
- Property	6.0	6.0	15.0
- Infrastructure	2.5	7.5	10.0
- Other real assets	-	4.0	7.5
Bonds & Cash	19.0	22.5	25.0
Total	**100.0**	**100.0**	

[1]At 31 December 2016, the expected return of the current target investment strategy was 4.2% p.a. with an expected volatility of 9.8% p.a. This volatility includes an assumed diversification benefit of 3.4% p.a. Further details on the Fund's risks, including the approach to mitigating risks, is provided in the following section.

[2]At 31 December 2016, the expected return of the long-term investment strategy was 4.8% p.a. with an expected volatility of 10.5% p.a. This volatility includes an assumed diversification benefit of 3.9% p.a. Further details on the Fund's risks, including the approach to mitigating risks, is provided in the following section.

In moving towards the long-term strategy, the Committee will consider opportunities to increase the Fund's allocation to funds delivered via the London CIV.

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 I 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:

That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund.

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:

Table 2: Investment through the Pool

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%
Total	**42.5%**	**57.5%**

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 on the retention of life funds outside pools for the time being.

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 strategies 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 Committee recognises the need to collaborate with other investors to promote best practice on responsible investment and effectively engage with companies. The Committee is a member of the Local Authority Pension Fund Forum ("LAPFF") and participates in this to promote its views.

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 %
Equities			**30.0**
Global Equity	LGIM	FTSE All World Equity Index	7.5
Fundamental Equity	LGIM	FTSE RAFI All World 3000 Index	7.5
Active Global Equity	Baillie Gifford (accessed through the London CIV)	MSCI All Countries Index plus 2.5%	15.0
Multi-asset			**42.5**
Absolute Return	Ruffer (accessed through the London CIV)	LIBOR+	15.0
Diversified Growth	Baillie Gifford (accessed through the London CIV)	UK Base Rate plus 3.5%	12.5
Real Return	GMO	OECD CPI g7 plus 5%	15.0
Real assets			**8.5**
UK Core Property	UBS	IPD All Balanced Property Funds Weighted Average Index	6.0
Local infrastructure	Internal		2.5
Bonds and cash			**21.0**
Active bonds	Royal London	• 50% iBoxx £ non- Gilt over 10 years • 16.7% FTSE Actuaries UK gilt over 15 years • 33.3% FTSE Actuaries Index-linked over 5 years • Plus 1.25%	19.0
Total			**100.0**

Appendix: Current manager benchmark allocations

Asset class	Manager	Benchmark and target	Benchmark Allocation %
Equities			**30.0**
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
Multi-asset			**42.5**
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
Real assets			**8.5**
UK Core Property	UBS	IPD All Balanced Property Funds Weighted Average Index	6.0
Local infrastructure	Internal		2.5
Bonds and cash			**19.0**
Active bonds	Royal London	• 50% iBoxx £ non- Gilt over 10 years • 16.7% FTSE Actuaries UK gilt over 15 years • 33.3% FTSE Actuaries Index-linked over 5 years • Plus 1.25%	19.0
Total			**100.0**

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 was last updated in 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 :		**SUMMARY: FULLY COMPLIANT**
(a) Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and	1) Administering authorities should have a designated group of elected members appointed to a committee to whom responsibility for pension fund activities have been assigned.	A designated group of elected members, 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.
	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:www.havering.gov.uk, follow links council, democracy and council, constitution of the council or select the link below. Havering - Library folder - Constitution
	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.
	8) The committee review its structure and composition regularly and provide each member with a handbook containing committee's terms of reference, standing orders and operational procedures. It is good practice to establish an investment or other subcommittee to provide focus on a range of issues.	Council recommends that the membership of the Pensions Committee remains static for the life of their term in office to facilitate knowledge continuity and helps to maintains expertise within the committee. Elected members are provided with a copy of their roles and responsibilities. The committee has not established any subcommittees as the Pensions Committee focuses only on the activities of the pension fund.
	9) The committee may wish to establish subcommittees or panels to take responsibility for progressing significant areas of activity between meetings.	The Council does have a pension panel that exercises discretions within the LGPS and deals with the Internal Dispute Resolution Procedure regulations.
	10) The committee should obtain proper advice from suitably qualified persons, including officers. The CFO should assess the need for proper advice and recommend to the committee when such advice is necessary from an external advisor. The committee should ensure that it has sufficient internal and external resources to carry out its responsibilities effectively.	The Pensions Committee has appointed two advisors – Investment advisor and Actuarial advisor. The Pension Fund 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 **CFO** should be given the responsibility for the provision of a training plan and ensure that members are fully aware of their statutory & fiduciary duties.	The Training Plan is incorporated within the Business Plan and includes a log of training undertaken and attendance. Indicative future training plans are also included in the business plan.
	15) The **CFO** should ensure that a medium term business plan is created and contains: financial estimates for the investment and administration of the fund, appropriate provision for training, major milestones and issues to be considered, key targets and method of measurement. The business plan should be submitted to the committee for consideration.	The Business Plan is considered by the Pensions Committee and contains: financial estimates for the investment and administration of the fund, appropriate provision for training, major milestones and issues to be considered, key targets and method of measurement. The business plan also incorporates the training plan.
	16) Business plan to review the level of internal and external resources the committee needs to carry out its functions.	Medium term Business Plan is considered by the Pensions Committee. The business plan includes the outcome of an internal review of resources, when appropriate.
	17) Administrating Authorities are required to prepare, publish and maintain statements of compliance against a set of good practice principles for scheme governance and stewardship.	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: www.havering.gov.uk (under Council, democracy and elections, council budgets and spending, then Pension Fund) or select the link to the pension's page below. Pension Fund page
	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		
		SUMMARY: FULLY COMPLIANT
	The committee should:	As part of the Valuation process consideration is given, with full consultation of the fund's actuary, to :
(a) An overall investment objective (s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and these should be clearly communicated to advisors and investment managers.	1) demonstrate that in setting an overall objective of the fund it has considered: the fund's liabilities in the context of expected net contribution inflows; the adequacy of the fund's assets to meet its liabilities; the maturity profile of the fund's liabilities and its cash flow situation.	the fund's liabilities in the context of the expected net contribution inflows; adequacy of the assets to meet its liabilities; maturity profile and its cash flows;
	2) consider the nature of membership profiles and financial position of the employers in the fund and decide, on the advice of actuaries, whether or not to establish sub funds.	membership profiles; financial position of the employers and whether or not to establish a sub fund;
Page 225	3) seek to include the achievement of value for money and efficiency in its objectives and all aspects of its operation	value for money;
	4) with the **CFO** need to give consideration to the general and strategic impact of the funding levels and employer contribution rates on Council tax levels over time. The responsibility of the actuary to keep employer contribution rates as constant as possible over time is the primary means of achieving this.	and the general and strategic impact of the funding levels and employer contribution rates on Council tax levels over time.
		The Fund's investment policies and objectives are laid out in the Funding Strategy Statement (FSS) and can be found on the Councils website, www.havering.gov.uk, council, democracy and elections, council budgets and spending, then pension fund or by selecting the link below. Pension Fund page

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 administrating authority's own procurement rules.	The Pensions Committee appoints external advisors in line with EU procurement rules and the administrating authorities own procurement rules. The committee states how performance is to be measured for the advisors and a service review is undertaken and reported to the committee annually.
	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.

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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.
3. Risk and liabilities		
		SUMMARY: FULLY COMPLIANT
a) In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.	The committee should:	
b) These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.	1) set an overall investment strategy for the fund that: represents its best judgement of what is necessary to meet the fund's liabilities given its understanding of the contributions likely to be received from employer (s) and employees; takes account of the committee's attitude to risk, and specifically its willingness to accept underperformance due to market conditions.	A full investment strategy review was carried out following the actuarial valuation results in 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. 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. Specific benchmarks are considered as part of any investment strategy review and monitored on an on-going basis.
	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.	
	5) believe that regardless of market conditions, on certain asset classes, a certain rate of return is acceptable and feasible.	
	6) state whether a scheme specific benchmark has been considered and established and what level of risk, both active and market risk, is acceptable to it.	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. 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.
	7) receive a risk assessment in relation to the valuation of its liabilities and assets as part of the triennial valuations. Where there is reasonable doubt during performance monitoring of the fund about valuation of assets and liabilities the **CFO** should ensure that a risk assessment is reported to the committee, with any appropriate recommendations for action to clarify and/or mitigate the risks.	

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.
	9) use reports from internal and external auditors to satisfy itself about the standards of internal control applied to the scheme to its administration and investment operations. Ensuring effective internal control is an important responsibility of the **CFO.**	The 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. The Pension Fund's Statement of Investment Principles includes a description of the risk assessment framework.
	10) The fund's Statement of Investment Principles should include a description of the risk assessment framework used for potential and existing investments.	
	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.
4. Performance assessment		
		SUMMARY: FULLY COMPLIANT
	Investments	
a) Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors	The committee should:	
b) Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members	1) explicitly consider, for each asset class invested, whether active or passive management would be more appropriate; where it believes active management has the potential to achieve higher returns, set both targets and risk controls that reflect this, giving managers the freedom to pursue genuinely active strategies; if setting limits on divergence from an index, ensure that they reflect the approximations involved in index construction and selection.	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.
	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 has CIPFA/WM) may not be appropriate for directing a mandate of a manager insofar as they infer a common asset liability structure or investment requirement. Such benchmarks can be used for comparative information.	WM performance returns against peer group benchmarks are used for comparison purposes only.
	11) The mandate represents the instruction to the manager as to how the investment portfolio is to be managed, covering the objective, asset allocation, benchmark, flexibility, risk parameters, performance targets and measurement timescales.	The mandate agreed with the investment manager includes how it is to be managed and covers the objective, asset allocation, benchmark, flexibility, risk parameters, performance targets and measurement timescales.
	Advisors	
	12) The committee should devise a performance framework against which to measure the cost, quality and consistency of advice received from its actuaries. It is advisable to market test the actuarial service periodically.	Annual service assessments are undertaken for the services provided the Fund's actuary and advisors. They are measured against a set of criteria adopted by the Pension Committee.
	13) It is necessary to distinguish between qualitative assessments (which are subjective) and quantitative reviews which require the compilation of series of data and are therefore more long term by nature.	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. 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.
	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	
	Decision-making bodies	
	16) The process of self assessment involves both officers and members of the committee reviewing a range of items, including manager selection, asset allocation decisions, benchmarking decisions, employment of consultants and best value outcomes;	
	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)**	**Havering Position/Compliance**
5. Responsible ownership		
		SUMMARY: PARTIALLY COMPLIANT
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. 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.
	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	

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.
6 Transparency and reporting		
		SUMMARY: FULLY COMPLIANT
Administrating authorities should:	The committee should:	
a) act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives	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) provide regular communication to scheme members in the form they consider most appropriate.	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 Councils website at www.havering.gov.uk, follow links for council & democracy, committees, then pension committee. There is also a dedicated page on the Council's website for the Pension Fund under the page for council and democracy. How the work is communicated to its stakeholders is included in the fund's Communication Strategy, select link below to see the pensions page on the council's website. Pension Fund page
	4) seek examples of good practice from the published reports and communication policies of other pension funds. It should also share examples of its own good practice. The full range of available media should be considered and used as appropriate.	Havering has undertaken partnership working with the London Pension Fund Authority who have developed a website to enable pension sharing best practices across the London Boroughs at www.yourpension.org.uk. Havering Pension Fund is also members of the CIPFA Pensions Network and the London Pension Fund Forum which are good sources of sharing best practices.
	5) compare regularly its annual report to the regulations setting out the required content and, if the report does not fully comply with the requirements, should ensure that an action plan is produced to achieve compliance as soon as possible.	The 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 www.havering.gov.uk 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. Pension Fund page
	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 valorum or fixed, performance element built in, stating the implications for risk control; copies should be made available and its availability made clear in publications.	given to each manager are described, including fees; and implications for risk control.
	With regard to the Governance Compliance Statement it must include:	
	8) information on whether administrating authority delegates, the whole or part function; if it does delegate must state frequency of meetings, terms of reference, structure and operational procedures. It must also include whether the committee includes representatives of employing authorities and if so, whether they have voting rights.	The Governance Compliance Statement includes information on the administering authorities' delegation process and functions delegated to the Pensions Committee. It also includes the frequency of meetings, terms of reference, structure and operational procedures.
	9) details of the extent to which it complies with CLG guidance. Where the statement does not comply, reasons must be given. A copy of the statement must be sent to the CLG.	The Governance Compliance Statement also includes a table which shows the extent of compliance with 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 administrating authorities' policy on provision of information and publicity about the scheme, it also includes the format, frequency and method of distribution of such information.

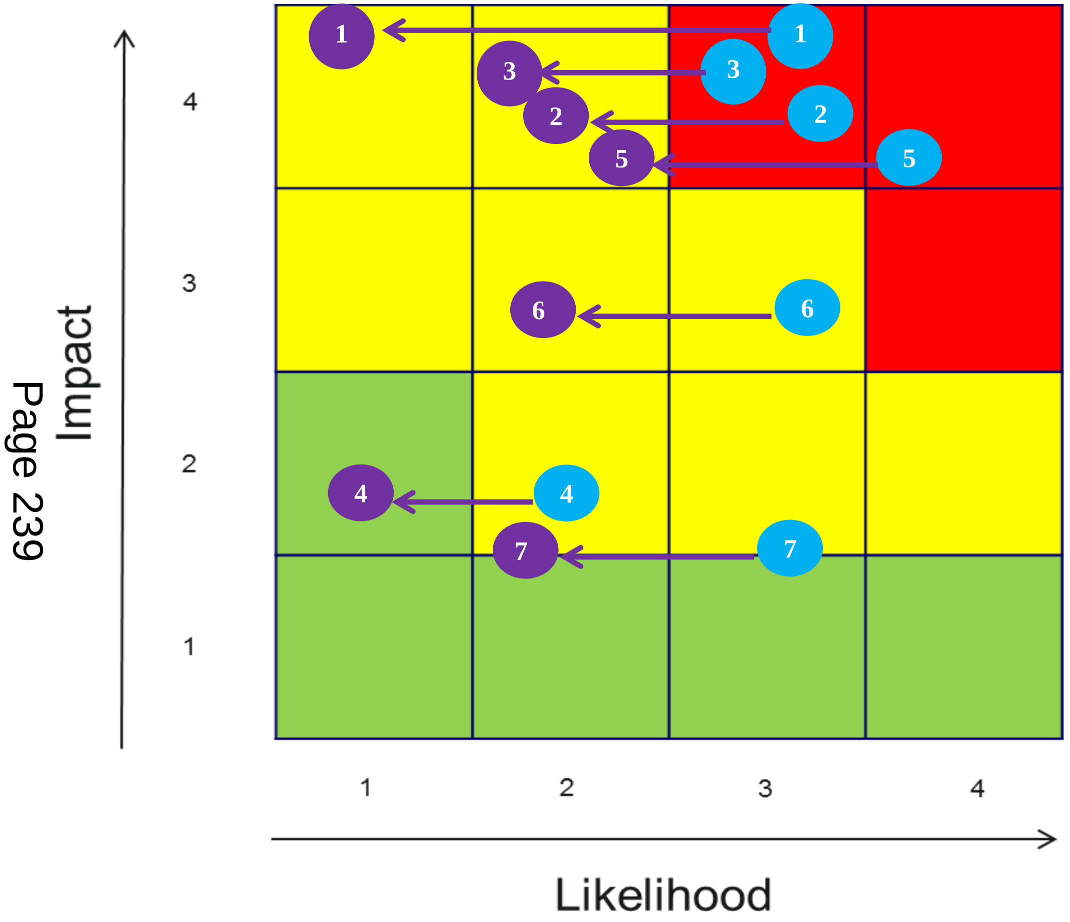
London Borough of Havering

Pension Risk Register

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**	**Causes:** ▪ Inappropriate assumptions used by actuary in calculations for valuation ▪ Poor quality data provided from LB of Havering ▪ Personal data not maintained to a high standard (gaps/incorrect) ▪ Actuary's own assumptions are not robust or reflective **Effects:** ▪ Deficit position worsens ▪ Employers pay/ continue to pay incorrect contribution percentages ▪ Increase in employer contributions ▪ Potential for Council Tax increases ▪ More investment risk may be	Impact 4 Likelihood 3	**Mitigations in place:** ▪ Robust, open tender process in place for appointment of actuary ▪ Valuation completed by a qualified professional actuary ▪ Some assumptions for valuation dictated by statute ▪ Actuarial assumptions are challenged by officers ▪ Valuation assumptions subject to External Audit review ▪ Local Government benchmarking/comparisons of assumptions ▪ Annual review of actuary performance undertaken by Pensions Committee **Actions to take forward:** None identified at this point.	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**
		taken to bridge a gap that doesn't actually exist ▪ Potential for a more risk averse Investment Strategy when more risk is required.				
2	**Incorrect / Inappropriate Investment Strategy**	**Causes:** ▪ Lack or poor professional investment advice given ▪ Investment advice is not taken ▪ Lack of understanding and awareness (Pension Committee) ▪ Lack of clear risk appetite ▪ Based upon inaccurate actuarial valuation **Effects:** ▪ Pension deficit not reduced ▪ Potential for financial loss ▪ Growth opportunities are not maximised	**Impact 4 Likelihood 3**	**Mitigations in place:** ▪ Robust, open tender process in place for appointment of Investment Advisor ▪ Investment Advisor performance is annually reviewed by the Pensions Committee ▪ Close working relationship is encouraged between actuaries and investment advisor in the development of the investment strategy ▪ Investment strategy continually assessed as part of the quarterly monitoring process by the Pensions Committee ▪ Liabilities analysed during inter-	**Impact 4 Likelihood 2**	**Director of Finance (oneSource)**

Pension Fund Risk Register						
Ref	**Risk Title**	**Cause & Effect**	**Inherent Score**	**Mitigations & Action to take forward**	**Residual Score**	**Risk Owner**
		▪ Could generate inefficiencies and unintended risks if not fully understood. ▪ More investment risk may be taken to bridge a gap that doesn't actually exist ▪ Potential for a more risk averse Investment Strategy when more risk is required. ▪ Potential for Council Tax increases		valuation period **Actions to take forward:** ▪ Pensions Committee Training / Awareness - working towards full compliance with CIPFA Knowledge and Skills framework ▪ Consider using a further independent advisor for challenge to investment advice		

Pension Fund Risk Register						
Ref	**Risk Title**	**Cause & Effect**	**Inherent Score**	**Mitigations & Action to take forward**	**Residual Score**	**Risk Owner**
3	**Failure of investments to perform in-line with growth expectations**	**Causes:** ▪ Poor Fund Manager selection ▪ Underperformance by fund manager ▪ Poor investment advice provided to LB of Havering or not taken ▪ Negative financial market impacts ▪ External factors / increased market volatility (i.e. 2008) ▪ Delays in the implementation of the strategy will reduce the effectiveness of the strategy and may impact growth **Effects:** ▪ Deficit reduction targets are not met ▪ Potential for losses to be incurred ▪ Increased employer contributions	**Impact 4 Likelihood 3**	**Mitigations in place:** ▪ Robust, Fund Manager selection process ▪ Diverse portfolio to reduce negative effects from market volatility ▪ Quarterly monitoring of fund performance and asset class split is presented by the Fund's Investment Advisor at Pension Committee. ▪ Fund performance and asset class split is reviewed quarterly by investment advisor/Pensions Committee and officers. ▪ Fund Managers attend Pension Committee and officer meetings to present quarterly performance reports **Actions to take forward:** ▪ Pensions Committee	**Impact 4 Likelihood 2**	**Director of Finance (oneSource)**

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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**	**Causes:** ▪ Lack of appropriate skills/knowledge to fulfil requirements ▪ Unaware of legislative changes ▪ Development of key person dependency ▪ Poor/inaccurate interpretation of the regulations ▪ Failure/inability to administer the pension scheme appropriately. **Effects:** ▪ Reputational damage ▪ Potential for financial penalties ▪ Potential for costly legal challenges ▪ Increase in employer contributions,	**Impact 2 Likelihood 2**	**Mitigations in place:** ▪ Financial requirements are subject to external and internal audit ▪ Experienced personnel in place ▪ Legislative changes are reported to the Pensions Committee where required ▪ Active participation in Legislative Consultations where appropriate ▪ External and in house training provided where required ▪ Member of the CIPFA Pensions Network ▪ Participate in the CIPFA Pensions Network/ Peer forums to share knowledge & awareness ▪ Statutory policy documents reviewed annually to ensure	**Impact 2 Likelihood 1**	**Director of Finance (oneSource)** **And** **Director of Exchequer & Transactional Services (oneSource)**

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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 ▪ Access to specialist pension media sources **Actions to take forward:** None identified at this point.		

Pension Fund Risk Register						
Ref	**Risk Title**	**Cause & Effect**	**Inherent Score**	**Mitigations & Action to take forward**	**Residual Score**	**Risk Owner**
5	**Inability to manage/govern the Pension Fund and associated services**	**Causes:** ▪ Ineffective / lack of succession planning ▪ Loss of corporate knowledge/expertise ▪ Long term sickness absence ▪ Increase in staff turnover ▪ Lack of knowledge sharing protocols ▪ No knowledge base to store experiences/information ▪ Lack of resource (Staffing/financial) ▪ ICT failure ▪ Poor pension fund administration ▪ Poor monitoring of employer financial status ▪ Inappropriate investment accounting **Effects:** ▪ Negative impacts upon service	**Impact** **4** **Likelihood** **4**	**Mitigations in place:** • Bond or guarantee reviews in place and reviewed every three years as part of valuation process • Procedure manual in place for Pension Administration • Attendance at local forum meetings • Attendance at Annual Pension Managers conference • Members of Local Authority Pensions Web • Participates in the CIPFA Pensions Network/ Peer forums to share knowledge & awareness • Attendance at accounting seminars/training • Guidance from external agencies (some will be at a cost) • Pension Fund uses the service of an external custodian to verify asset values and performance	**Impact** **4** **Likelihood** **2**	**Director of Finance (oneSource)** **And** **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**
		provision ▪ Time delays ▪ Potential for breach of legislation ▪ Financial penalties/ other sanctions ▪ Reputational Damage ▪ Increased costs due to "buying in" external expertise ▪ Employer defaults ▪ Qualified opinion on the accounts by external auditor		• Pension Fund accounts subject to external audit. • Continuous pension training • ICT Disaster Recovery in place **Actions to take forward:** • Succession planning required for key personnel • Review / update procedure manuals • Option being assessed for joint administration with Newham to build resilience • Introduce employer covenants checks • Strengthen process for Bond Reviews • Development of workflow/process management • Development of Training Matrix • Establishment of a statutory Local Pension Board to assist the administering authority in		

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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**	**Causes:** ▪ Delays in internal processing of documentation ▪ Poor communications with stakeholders ▪ Lack of understanding by employers with regard to their responsibilities ▪ Lack of signed agreements from Employers **Effects:** ▪ Delays in collection of contribution from the employers/members ▪ Impacts cash flow ▪ Potential for litigation ▪ Employer contribution assessment can become out of date ▪ Potential breach of regulations	**Impact** **3** **Likelihood** **3**	**Mitigations in place:** • Escalation to Heads of Service • Script in place to deliver to new Academy employers, with feedback process in place (minuted) • Database maintained on all contact details for LGPS communications. • Monthly schedules of data submitted to Pensions Administration Team • Electronic file of required documents forwarded to new employers **Actions to take forward:** • Review of internal processes (particularly legal input) • Completion of TUPE Process	**Impact** **3** **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
		▪ Incorrect records of new members ▪ External Audit Opinion on internal controls ▪ Employers liabilities may fall back onto other employers and ultimately local taxpayers.		Manual • Completion of Admission Policy manual • Template admission agreement awaiting legal clearance		
7	**Pension Fund Payment Fraud**	**Causes:** ▪ Pension overpayments arising as a result of non-notification in change of circumstances ▪ Internal staff fraud ▪ Staff acting outside of their levels of authorisation **Effects:** ▪ Financial loss ▪ Reputational damage of Pension Administration team and Council ▪ Litigation / investigation ▪ Internal disciplinary	**Impact 2 Likelihood 3**	**Mitigations in place:** • Participate in the National Fraud Initiative (bi-annually) • Process is in place to investigate return of payment by banks. • All pension calculations are peer checked and signed off by senior officer • Segregation of duties within the Pensions Administration Team • Segregation of duties between Payroll and Pensions Administration Team • 100% address check undertaken for deferred pensions	**Impact 2 Likelihood 2**	**Director of Exchequer & Transactional Services (oneSource)**

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Pension Fund Risk Register

Ref	Risk Title	Cause & Effect	Inherent Score	Mitigations & Action to take forward	Residual Score	Risk Owner
				Actions to take forward: • Consider implementation of a monthly mortality check • Investigating usage of external agencies (i.e. Western Union) (for overseas payments)		

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE

Subject Heading:	**PROPOSED WORK PROGRAMME FOR THE PENSIONS COMMITTEE**
SLT Lead:	Daniel Fenwick, Head of Legal and Governance
Report Author and contact details:	Victoria Freeman Democratic Services officer 01708 433862 Victoria.freeman@onesource.co.uk
Policy context:	The document attached suggests the work of the Committee for the 2018/19 municipal year.
Financial summary:	No impact of presenting of information itself.

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

The Forward Plan (appendix A) provides a summary of the expected agenda items at each of the next five planned Pension Committee Meetings.

Training relevant to the agenda and based on priority is identified for each Meeting.

RECOMMENDATIONS

1. To comment on the forward plan within the report.

2. To approve the forward plan, subject to any comments made.

REPORT DETAIL

The Audit Committee is currently planned to meet on five occasions during the current financial year. There are specific reports planned throughout the year, and the Audit Committee will often also add an item to their agenda relating to follow up of a specific issue.

IMPLICATIONS AND RISKS

Legal implications and risks:

The specialist training of those Members who oversee the administration of the Council Pension Scheme is highly desirable in order to help show the proper administration of the scheme. The Council's Constitution recommends that the Membership of the Pension Committee remains static for the life of the Council for the very reason that Members need to be fully trained in investment matters. The life of the Council is considered to be the four year term.

Otherwise there are no apparent legal implications in taking the recommended decisions.

Human Resources implications and risks:

None arising directly.

Equalities implications and risks:

None arising directly

PENSIONS COMMITTEE – FORWARD PLAN / TRAINING

FORWARD PLAN	AGENDA ITEM	PLANNED TRAINING
24 July 2018	• Pension Fund Accounts 2017/18 • Pension Fund Annual Report • Quarterly monitoring report to end of March 2018 • Local Pension Board Annual Report • Real Assets – Implementation (exempt agenda)	Pension Fund Accounts
18 September 2018	• Quarterly Monitoring Report on Pension Fund to end of June 2018: UBS Property Manager • FRC Stewardship Code and Responsible Investment • Employing Authority Discretions	FRC Stewardship Code
13 November 2018	• Annual review of Custodian • Annual review of Adviser • Annual review of Actuary • Annual review of Fund Managers Voting & Engagement • Review of Governance Policy • Whistleblowing Annual Assessment • Risk Register Review • Communications Strategy	Associated Training
11 December 2018	• Quarterly Monitoring Report on Pension Fund to end of September 2018: LGIM (Funds Passive Equity Manager)	Associated Training
19 March 2019	• Quarterly Monitoring Report on Pension Fund to end of December 2018: London CIV (Pooling manager) plus Ruffer	Associated Training

Havering
LONDON BOROUGH

PENSIONS COMMITTEE

Subject Heading:	**PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED MARCH 18**
CLT Lead:	**Jane West**
Report Author and contact details:	***Christine Sampson*** ***Pension Fund Accountant*** ***01708431745*** ***Christine.Sampson@onesource.co.uk***
Policy context:	Pension Fund Managers' performances are regularly monitored in order to ensure that the investment objectives are being met.
Financial summary:	This report comments upon the performance of the Fund for the period ended 31st March 2018

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 quarter to 31 March 2018. 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 **quarter** to 31 March 2018 was **-1.1% (a reduction of £8.3m to £707m).** This represents an under performance of **-0.3%** against the combined tactical benchmark and under performance of **-1.6%** against the strategic benchmark.

Baillie Gifford Global Equity Fund was the best performer on a relative basis over the quarter, whilst the worst performance came from GMO this quarter.

The overall net return of the Fund's investments for the **year** to 31 March 2018 was **4.9%.** This represents an outperformance of **2.3%** against the combined tactical benchmark and an outperformance of **2.5%** 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 are set out in paragraphs 1.1 and 1.3 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 - Exempt).
3) Receive a presentation from the Fund's Property Manager (UBS) (Appendix B- Exempt).
4) Considers the quarterly reports provided by each investment manager.
5) 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%	Legal & General Investment Management (SSgA until Nov 17)	Pooled	Passive	FTSE All World Equity Index
	7.5%	Legal & General Investment Management (SSgA until Nov 17)	Pooled	Passive	FTSE RAFI All World 3000 Index
Multi Asset Strategy	12.5%	LCIV Baillie Gifford	Pooled	Active	Capital growth at lower risk

Asset Class	Target Asset Allocation (ISS Jan 17)	Investment Manager/ product	Segregated /pooled	Active/ Passive	Benchmark and Target
		(Diversified Growth Fund)			than equity markets
	15.0%	GMO Global Real return (UCITS)	Pooled	Active	OECD CPI g7 plus 3 - 5% 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	50% iBoxx £ non- Gilt over 10 years 16.7% FTSE Actuaries UK gilt over 15 years 33.3% FTSE Actuaries Index- linked over 5 years. Plus 1.25%*
Infrastructure	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

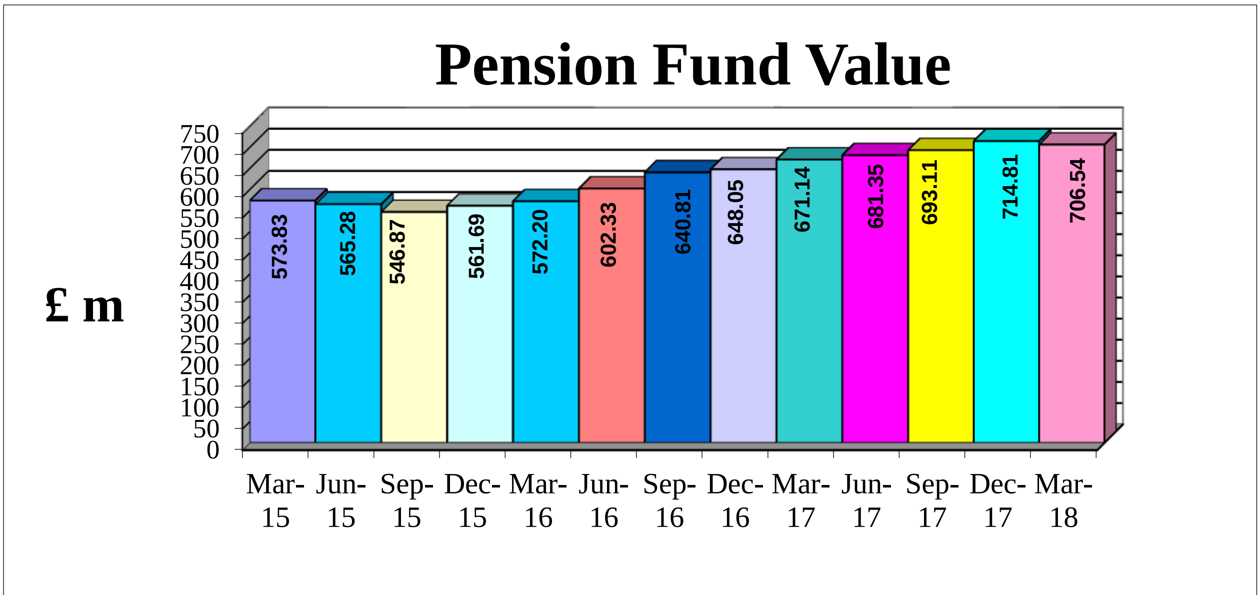
2.1 After reviewing the current reporting arrangements at the Pensions Committee held on the 5 June 2017 it was agreed that only one fund manager will attend each committee meeting.

2.2 The Fund Manager attending this meeting is the Fund's Property Manager (UBS)

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 31 March 2018 was **£706.54m**. 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 £714.81m at the 31 December 2017; a **decrease** of (**£8.27m)**. Movement in the fund value is attributable to a decrease in assets of (£9.62m) and an increase in cash of £1.35m. The internally managed cash level stands at **£17.25m** of which an analysis follows in this report.



Source: WM Company (Performance Measurers)

3.2 An analysis of the internally managed cash balance of **£17.25m** follows:

Table 2: Cash Analysis

CASH ANALYSIS	**2015/16 31 Mar 16**	**2016/17 31 Mar 17**	**2017/18 31 Mar 18**
	£000's	£000's	£000's
Balance B/F	**-7,599**	**-12,924**	**-12,770**
Benefits Paid	35,048	36,490	36,490
Management costs	1,754	1,358	1,246
Net Transfer Values	518	2,151	1,586
Employee/Employer Contributions	-42,884	-40,337	-42,909
Cash from/to Managers/Other Adj.	306	586	-785
Internal Interest	-67	-94	-109
Movement in Year	**-5,325**	**154**	**-4,481**
Balance C/F	**-12,924**	**-12,770**	**-17,251**

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

	Quarter to 31.03.18	**12 Months to 31.03.18**	**3 Years to 31.03.18**	**5 years to 31.03.18**
	%	**%**	**%**	**%**
Fund	-1.1	4.9	6.7	8.0
Benchmark	-0.8	2.6	5.5	6.5
*Difference in return	-0.3	2.3	1.1	1.4

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

	Quarter to 31.03.18	12 Months to 31.03.18	3 Years to 31.03.18	5 years to 31.03.18
	%	%	%	%
Fund	-1.1	4.9	6.7	8.0
Benchmark	0.5	2.3	8.8	8.7
*Difference in return	-1.6	2.5	-2.0	-0.7

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 31 MARCH 2018)

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark	Target	Performance vs Target
	%	%	%	%	%
Royal London	-0.32	-0.41	**0.09**	-0.10	**-0.22**
UBS	2.09	1.90	**0.19**	n/a	**n/a**
GMO	0.05	0.61	**-0.56**	n/a	**n/a**
LGIM Global Equity	-4.39	-4.42	**0.03**	n/a	**n/a**
LGIM Fundamental Index	-5.17	-5.24	**0.07**	n/a	**n/a**
LCIV/Ruffer*	-2.55	n/a	**n/a**	n/a	**n/a**
LCIV/Baillie Gifford (DGF)*	0.52	n/a	**n/a**	n/a	**n/a**
LCIV/Baillie Gifford (Global Alpha Fund)	-0.94	-4.44	**3.50**	n/a	**n/a**

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)

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark	Target	Performance vs Target
	%	%	%	%	%
Royal London	2.72	1.49	**1.23**	2.74	**-0.02**
UBS	10.52	10.02	**0.50**	n/a	**n/a**
GMO	6.06	1.77	**4.29**	n/a	**n/a**
LGIM Global Equity	n/a	n/a	**0.00**	n/a	**n/a**
LGIM Fundamental Index	n/a	n/a	**0.00**	n/a	**n/a**
LCIV/Ruffer*	-1.15	n/a	**n/a**	n/a	**n/a**
LCIV/Baillie Gifford (DGF)*	4.77	n/a	**n/a**	n/a	**n/a**
LCIV/Baillie Gifford (Global Alpha Fund)	13.10	3.17	**9.93**	n/a	**n/a**

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.
- LGIM not invested for the reported period.

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 13 March 2018 which reviewed performance as at 31 December 17 and with officers on the 11 May 2017 which reviewed performance as at 31 March 2017.

b) The value of the fund as at 31 Mar 2018 has decreased by (£0.38m) since the December quarter.

c) Royal London delivered a net return of -0.32% over the quarter, outperforming the benchmark by 0.09%. The mandate is ahead of the benchmark over the year by 1.23% and 0.62% since inception.

d) Royal London Asset Allocation:

%

i.	Credit Bonds (corporate)	53.2
ii.	Index Linked Bonds	26.9
iii.	Sterling Government Bonds	11.6
iv.	RL Sterling Extra Yield Bond	5.6
v.	Overseas Bonds	0.2
vi.	Cash	2.6

(Figures subject to Rounding)

The main driver of relative performance over the quarter was the Fund's short duration stance. Stock selection also made a positive contribution, in particular within the Fund's allocation to secured and structured debt. The Fund's holding in the Royal London Sterling Extra Yield Bond Fund had a small positive effect upon relative returns. Credit sector selection had a negative effect on relative returns, mainly reflecting the lack of exposure to supranationals, which outperformed the broad market. Yield curve positioning also detracted from relative performance, while asset allocation had a small negative impact

5.2. Property (UBS)

a) UBS last met with the Committee on 14 March 2017 which reviewed performance as at 31 December 2017 and with officers on the 16 August 2017 which reviewed performance as at 30 June 2017.

b) The value of the fund as at 31 March 2018 decreased by (£1.2m) since the December quarter.

c) Representatives from UBS are due to make a presentation at this Committee, and a brief overview of their performance follows

d) UBS delivered a net return of 2.09% over the quarter, outperforming the benchmark by 0.19%. The mandate is ahead of the benchmark over the year by 0.05% and behind by 0.59% over 5 years

e) UBS Sector weighting:

		%
i.	Industrial	38.9
ii.	Retail warehouse	25.7
iii.	Office	19.8
iv.	Other Commercial Property	12.4
v.	Shopping Centres*	0.0
vi.	Unit Shops	2.9

*reclassified as Retail warehouse

f) Performance was primarily driven by the Fund's Sector weighting, mainly UK commercial properties and ongoing asset management across the portfolio.

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 £0.55m since the December quarter.

c) GMO have underperformed their benchmark over the 3 month but outperformed over the 12 month and since inception, as follows:

Table 7: GMO performance

	3 Months	**12 Months**	**Since inception (13 Jan 2015)**
	%	**%**	**%**
Net Fund Return	0.05	6.06	2.46
Benchmark (OECD CPIG7)	0.61	1.77	1.49
Relative to Benchmark	-0.56	4.28	0.97

- Totals may not sum due to geometric basis of calculation and rounding.
- Investment Advisor reports include outperformance target, the above is the Fund manager benchmark, so benchmark will not match.

d) GMO asset Allocation:

		%
i.	Equities	36.8
ii.	Alternative strategies	22.1
iii.	Fixed Income	16.9
iv.	Cash/Cash Plus	24.2

e) Main performance driver came from the equity portfolio and the high weighting in emerging markets. Alternative Strategies also saw a positive return. The Allocation to cash was positive, albeit modest, notably due to risk assets suffering a sell off whilst cash maintained its value. Negative contribution came from the Fixed Income strategies.

5.4 Passive Equities Manager - Legal & General Investment Management (LGIM)

a) The value of the fund as at the 31 March 2018 decreased by (£4.9m) since the December quarter

b) The passive equity mandate is split between the FTSE RAFI All World 3000 index and the FTSE All World Index.

c) As anticipated from an index-tracking mandate LGIM has performed in line with the benchmark over the quarter, delivering a net return on the FTSE RAFI All World 300 index of -4.39% over performing the benchmark by 0.03%, and a net return on the FTSE Rafi AW 3000 Equity Index of -5.17% over performing the benchmark by 0.07%

5.5. Multi Asset Manager – London CIV (Ruffer)

a) This mandate transferred to the London CIV on 21 June 2016.

b) The London CIV will now oversee the monitoring and review of performance for this mandate. 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.

c) Ruffer last met with officers on the 19 September 2017 which reviewed performance as at 31 December 2016 and last met with the Committee on 19 September 2017 which reviewed performance as at 30 June 2017.

d) The value of the fund has decreased by (£2.49m) since the December quarter.

e) Since inception with the London CIV Ruffer returned -2.55% over the quarter, -1.15% over the year and 4.69% 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.

f) A higher weighting to equities was the main contributor to the underperformance as markets fell, this was mitigated by stock selection and the options portfolio protective assets but the overall effect was negative. With some of the equity protections sold Ruffer feel it prudent to reduce the portfolios equity holdings. The bonds portfolio also performed poorly as yields rose across the board

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 12 December 2017 which reviewed performance as at 30 September 2017.

c) The value of the Baillie Gifford Global Equities mandate fund decreased by (£1.20m) since the December quarter.

d) Since inception with the London CIV the Global Alpha Fund delivered a return of -0.94% over the quarter, outperforming the benchmark by 3.50%, delivered a return of 13.10% over the year, outperforming the benchmark by 9.93% and since inception with the London CIV the fund returned 23.95% outperforming the benchmark by 6.70%.

e) The Fund has performed ahead of expectations during the quarter, considerably outperforming a falling market.. Amazon was the largest contributor to relative performance during the quarter. Tesla led the negative contributors during the period following the crash of a Tesla vehicle which was operating in 'Autopilot mode' at the time.

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 12 December 2017 which reviewed performance as at 30 September 2017.

c) The value of the Baillie Gifford Global Equities mandate fund increased by £0.46m since the December quarter.

d) The Diversified Growth mandate delivered a return of 0.52% over the quarter, 4.77% over the last year and 9.03% 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.

e) The fund was the best performer of Multi-Asset funds on the LCIV platform, returning a small but positive return over the quarter. During a period when equity markets sold off, the main contributor to performance came from the allocation to absolute return, with the majority of that coming from the VIX futures position. Infrastructure was the single largest detractor, having been affected by the recent sentiments around the area of Public Private Initiative (PPI) contracts; high profile news stories have impacted the prices of this area more broadly. However

5.8 London CIV Update

a) A Verbal update will be provided with developments following the LCIV AGM being held on the 12th July 2018

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:

  UBS

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

IMPLICATIONS AND RISKS

Financial implications and risks:

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

Legal implications and risks:

None arising directly

Human Resources implications and risks:

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

Equalities implications and risks:

None arising that directly impacts on residents or staff.

By virtue of paragraph(s) 1 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Agenda Item 11

Havering
LONDON BOROUGH

PENSIONS COMMITTEE 24 July 2018

Subject Heading:	**INVESTMENT STRATEGY – UPDATE – REAL ASSETS IMPLEMENTATION**
CLT Lead:	**Jane West**
Report Author and contact details:	**Debbie Ford** **Pension Fund Manager** **01708432569** **Debbie.ford@onesource.co.uk**
Policy context:	**Investment Strategy Implementation**
Financial summary:	**In the region of £135m to fund Real Asset mandate and to rebalance equity exposure**

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, focussing on setting out a process for implementing the Fund's longer term strategic allocation to Real Assets

RECOMMENDATIONS

That the Committee is asked to:

1. Note Hymans report on Real Assets: Implementation issues attached as **Appendix A (exempt)**, for full details and supporting rationale to support the recommendations.

2. Agree that the new Real Assets mandate will be funded from internal cash and the Multi-asset mandates, initially through disinvestment from the GMO mandate, with this disinvestments being split between:

   a. JP Morgan (£30m)
   b. LGIM Emerging Market Equity Fund(£17.5m) replacing the lost exposure from the GMO mandate, and
   c. Cash (£17.5m), providing a temporary buffer to fund further capital calls.

3. Agree that the cash allocation be invested in a suitable vehicle either with Legal and General Investment Management (LGIM) or with the Fund's custodian (State Street)

4. Agree that further consideration be given to the overall structure of the Fund's equity allocation, including consideration of the LGIM Future World Fund, at the September Committee meeting;

5. Agree that further consideration be given to the management of currency risk associated with the Real Asset mandates at the September Committee meeting;

6. Agree that state Street (the Fund's custodian) should undertake the necessary foreign exchange transactions to convert the required capital payments from Sterling to either US Dollars or Euros, as required.

REPORT DETAIL

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 (ISS) at the 28 March 2017 committee meeting.

b) Following an independent 'health check' undertaken by Allenbridge which was submitted to the 25 June 2017 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) At the 21 November 2017 meeting the ISS was reviewed and updated to reflect the decisions and progression of the implementation of the strategy, mainly to include the long term asset allocation targets.

d) The attached paper (Appendix A) has been produced by the Fund's Investment Advisor (Hymans) and provides full details and supporting rationale to support the above recommendations.

IMPLICATIONS AND RISKS

Financial implications and risks:

Stafford Capital's on-boarding process has been completed and in line with the terms of the subscription agreement with Stafford Capital a payment of EUR 7,636.956.45 (£6.7m) was required to meet the drawdown deadline of the 27 June 2018.

The amount of EUR 7,636.956.45 (£6.7m) was transferred from the Pension Fund internal cash balances to Stafford Capital on the 27 June 2018.

It will be necessary to disinvest c£129m with existing multi assets mandates to fund the new Real Asset mandates. This will be in the region of £78m to fund the Real Asset mandates (balance after internal cash transfer) and approximately a further £51m to rebalance the equity allocation.

The anticipated drawdown amounts and timetable is included within the attached Hymans report.

Officers are in the process of on-boarding JP Morgan and CBRE and once completed the Fund will be required to meet any drawdown commitments.

Implementation costs:

- Based on the structure proposed in Hymans report it is expected that management costs will be reduced by c0.5bps each year (c£350,000 per annum).

- Advisory costs – Hymans Advisory fees will cover the advisory costs of implementing the Real Asset mandate to date and progression going forward. The final costs will be available once their involvement in the various elements is confirmed.
- Legal costs – due to the complexity of the on-boarding documentation the Fund sought external legal advice and these costs are expected to be in the region of £9k (excluding VAT).

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.

By virtue of paragraph(s) 1 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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