Public Document Pack

PENSIONS COMMITTEE AGENDA

7.00 pm	Wednesday 24 July 2019	Town Hall, Main Road, Romford

Members 7: Quorum 3

COUNCILLORS:

Conservative Group (3)	Residents' Group (1)	Upminster & Cranham Residents Group (1)
John Crowder (Chairman) Osman Dervish Jason Frost	Stephanie Nunn	Ron Ower

North Havering Residents' Group (1)	Labour Group (1)
Martin Goode (Vice-Chair)	Keith Darvill

Trade Union Observers

(No Voting Rights) (2)

John Giles, Unison
Andy Hampshire, GMB

Admitted/Scheduled Bodies Representative

(Voting Rights) (1)

Vacancy

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:-

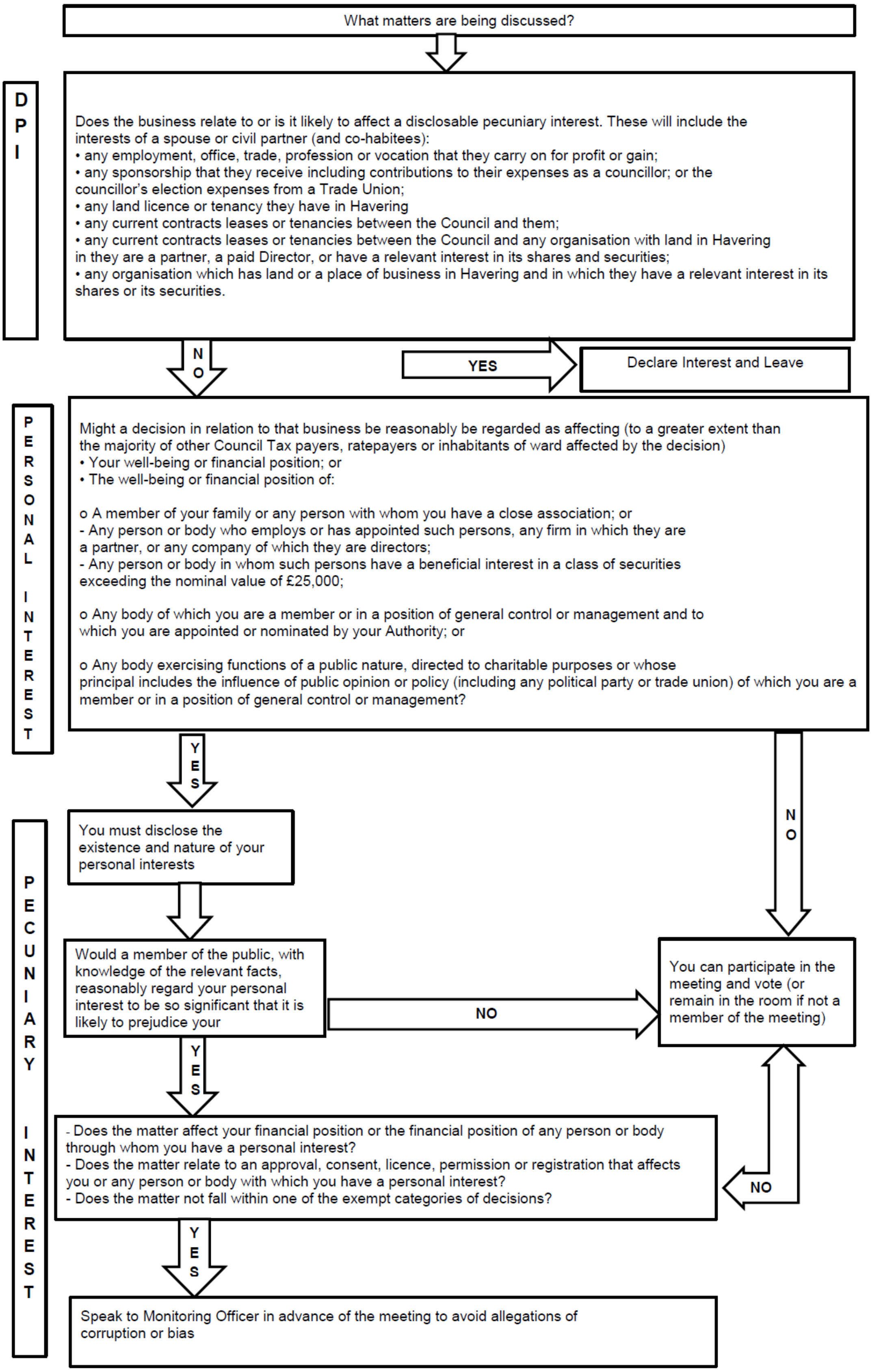
- filming, photographing or making an audio recording of the proceedings of the meeting;
- using any other means for enabling persons not present to see or hear proceedings at a meeting as it takes place or later; or
- reporting or providing commentary on proceedings at a meeting, orally or in writing, 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 - 4)

To approve as correct the minutes of the meeting held on 19 March 2019 and authorise the Chairman to sign them.

5 MINUTES OF THE LOCAL PENSION BOARD (Pages 5 - 6)

To receive the minutes of the Local Pension Board.

6 EXCLUSION OF PRESS AND PUBLIC

To consider whether the public should now be excluded from discussion of the next item only 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.

7 PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED MARCH 2019 (Pages 7 - 92)

8 PENSION FUND ANNUAL REPORT- YEAR ENDED 31 MARCH 2019 (Pages 93 - 296)

Report attached

9 PENSION FUND ACCOUNTS 2018/19 (Pages 297 - 332)

Report attached

10 POLICY FOR THE OVERPAYMENT OF PENSION FOLLOWING THE DEATH OF A PENSIONER OR DEPENDANT MEMBER (Pages 333 - 338)

Report attached

11 BUSINESS PLAN/ANNUAL REPORT ON THE WORK OF THE PENSIONS COMMITTEE 2018/19 (Pages 339 - 374)

Andrew Beesley
Head of Democratic Services

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MINUTES OF A MEETING OF THE PENSIONS COMMITTEE
Town Hall, Main Road, Romford
19 March 2019 (7.00 - 9.30 pm)

Present:

COUNCILLORS

Conservative Group	Viddy Persaud and +Roger Ramsey
Residents' Group	Stephanie Nunn
Upminster & Cranham Residents' Group	Ron Ower
North Havering Residents' Group	Martin Goode (Vice Chair)

An apology was received for the absence of Councillor John Crowder.

Substitute Member: Councillor Roger Ramsey (for John Crowder).

Councillor David Durant was in also in attendance for the duration of the meeting.

All decisions were taken with no votes against.

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

Councillor Martin Goode took the Chair for the duration of the meeting, in the absence of Councillor John Crowder.

99 **DISCLOSURE OF INTERESTS**

There were no disclosures of interest.

100 **MINUTES OF THE MEETING**

The minutes of the ordinary meeting held on 11 December 2018 and of the extraordinary meeting held on the 21 February 2019 were agreed as a correct record and signed by the Chairman.

101 **MINUTES OF THE LOCAL PENSION BOARD**

The Committee received, and noted, the notes of the inquorate meeting of the Local Pension Board held on the 18 December 2018.

102 **LOCAL GOVERNMENT PENSION SCHEME CONSULTATIONS**

The Committee received a report which advised of the Ministry for Housing, Communities & Local Government (MHCLG) publication of two draft consultations that impact on the Local Government Pension Scheme (LGPS), issued in January 2019. The draft consultations were the LGPS draft statutory guidance on asset pooling and the Local Government Pension Scheme: Fair Deal – Strengthening pension protection.

With regards to the LGPS draft statutory guidance on asset pooling, it was highlighted that from 2020 it was expected that pool members 'should make new investments outside the pool only in very limited circumstances' and it was felt that this would restrict the local authority and would have the most impact. It was further felt that the implication date of 2020 was unrealistic in terms of having products, resources and governance in place.

Members felt that the onus for the extensive reporting requirements on costs and relative to relevant indices should not be on the local authority.

RESOLVED: That

i) The detail of the consultations and the response date for Asset pooling being the 28 March 2019 and the Fair Deal being 4 April 2019, be noted.
ii) The Committee discussed and provided feedback for inclusion in the consultation responses.
iii) Members delegated the approval of response on Asset pooling to the S.151 Officer and/or the Pensions Committee Chair.
iv) Members delegated the approval of response on Fair Deal to the S.151 Officer and/or the Pensions Committee Chair.

103 **THE PENSIONS REGULATOR (TPR) IN DEPTH ENGAGEMENT**

The Committee were informed that the Pensions Regulator were conducting an in depth engagement with a sample of Local Government Pension Schemes and had chosen Havering as one of the funds that they would like to review. The review would focus on the governance and administration of the Scheme and a report of their findings would be published on an anonymous basis.

RESOLVED: That the Committee noted:

i) The review by the Pensions Regulator.
ii) Any resulting actions would be reported to the Committee at the conclusion of the review.

104 **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 during that item, there would be disclosure to them of exempt information within the meaning of paragraph 1 of Schedule 12A to the Local Government act 1972.

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

105 **STATEMENT OF INVESTMENT BELIEFS**

The Committee received a report which provided members with the proposed steps to establish a Statement of Investment Beliefs.

At the meeting on the 11 December 2018, Hyman Robertson provided training on Responsible Investment matters and the Committee agreed to work towards a formal Statement of Investment Beliefs for the Fund. A questionnaire to gather the Committee's views on a range of areas relating to the Fund's investment approach had been issued and the feedback was detailed in an exempt appendix to the report. The Committee considered the proposed investment beliefs statement as set out in an exempt appendix and noted that a final version would be presented to the Committee.

RESOLVED:

That the Committee:

- **i) Considered the proposed investment beliefs set out in Appendix A and whether these reflected the broad views of Committee members.**
- **ii) Engaged in discussion around areas where there were a range of views from the online questionnaires, to build consensus.**
- **iii) Agreed next steps to finalise a formal Statement of Investment Beliefs for inclusion in the Fund's Investment Strategy Statement (ISS), and that these beliefs would be referenced as part of future investment decision making.**
- **iv) Receive additional training on ESG matters to future develop Committee understanding, reflecting comments received as part of the online questionnaire.**

106 **PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED DECEMBER 2018**

The Committee received a report which provided an overview of the performance of the Havering Pension Fund investments for the quarter to 31 December 2018. The performance information was taken from the quarterly performance reports supplied by each Investment Manager, State

Street Global Services Performance Services PLC (formally 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 December 2018 was -5.6% (or -£42.16m to £692.41m). This quarter the fund underperformed the combined tactical benchmark by -3.5% and under performed against the strategic benchmark by -7.8%.

The overall net return of the Fund's investments for the year to 31 December 2018 was -3.6% which represented an underperformance of -5.1% against the annual strategic benchmark.

Based on the information supplied by the performance measures the total combined fund value at the close of business on 31 December 2018 was £692.41m. This valuation differed from the basis of valuation used by the Fund Managers and the Investment Advisor in that it excluded accrued income. This compared with a fund value of £734.57m at the 30 September 2018; a decrease of £-42.16m. Movement in the fund value was attributable to a decrease in assets of £-41.51m and a decrease in cash of £-0.65m. Internal managed cash level stood at £15.27m.

RESOLVED:

That the Committee:

- i) **Noted the summary of performance of the Pension Fund within the report.**
- ii) **Considered Hymans performance monitoring report and presentation (Appendix A – exempt).**
- iii) **Received presentations from the London CIV for the Fund's Multi Asset and UK Equities Managers within the LCIV platform – Bailee Gifford (Appendix B – Exempt), and Ruffer for the LCIV Absolute Return Fund (Appendix C – Exempt).**
- iv) **Considered the quarterly reports provided by each investment manager.**
- v) **Noted the analysis of the cash balances.**

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Chairman

**MINUTES OF THE MEETING OF THE
LOCAL PENSION BOARD
Committee Room 1-Town Hall
5 June 2019 (4.00 - 4.30 pm)**

Present:

Mark Holder, Scheme Member Representative
Ann Giles, Scheme Member Representative
Denise Broom, Employer Representative

1 **CHAIR'S ANNOUNCEMENTS**

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

2 **APOLOGIES FOR ABSENCE**

An apology for absence was received from David Holmes, Employer Representative.

3 **DISCLOSURE OF INTEREST**

There were no disclosures of interest.

4 **CHAIRMAN AND MEMBERSHIP OF THE BOARD**

The Board were advised that in accordance with the Terms of Reference a Chair was to be appointed by the employer and scheme members from amongst their own number, on a rotating basis with the term of office being shared between an employer and a scheme member representative on an equal basis.

Members noted that the Mark Holder's term of appointment as Chair of the Local Pension Board had ended. Members discussed the following options available and agreed the actions below in order:

i) To seek David Holmes views on being appointed as Chair until his resignation as an Employer representative. At that time seek whether Denise Broom would like to take up the Chair position.
ii) The person filling the forthcoming vacancy of Employer Representative to be approached to seek their views on being appointed as Chair.
iii) To ask David Holmes if he would be willing to be an Independent Chair when his position of Employer representative ended.
iv) That consideration be given to the appointment of a Local Authority officer as Chair, dependent on legalities and possibility of a conflict of interest.
v) An Independent Chair to be sought.

Mark Holder reported to the Board that he had formally written to the Local Authority advising that he would be in agreement to continuing as a Scheme Member Representative as his term of appointment had ended.

5 **ANNUAL REPORT OF THE LOCAL PENSION BOARD**

Members of the Board received, and agreed the Local Pension Board Annual Report, subject to amendments to the work plan.

6 **LOCAL PENSION BOARD WORK PLAN**

Members received the latest draft of the work plan covering 2019/20 and 2020/21 and discussed the differences between this document and the agreed work plan in place for 2017/18 and 2018/19 and the rationale for the changes.

Members took the opportunity to thank Mark Holder for his work as Chair over the past two years.

Chairman

Havering
LONDON BOROUGH

PENSIONS COMMITTEE **24 July 2019**

Subject Heading:	**PENSION FUND PERFORMANCE MONITORING FOR THE QUARTER ENDED MARCH 2019**
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 31 March 2019

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 2019. 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 2019 was **6.1% (or £41.21m to £733.62m).** This quarter the fund outperformed the combined tactical benchmark by 1.5% and underperformed against the strategic benchmark by -0.2%.

LCIV Baillie Gifford Global Alpha Growth Fund was the best performer on a relative basis over the quarter although there were no outstanding performers for this period, all of the Funds multi asset-mandates provided positive returns, the largest underperformance against benchmark coming from Stafford Capital.

The overall net return of the Fund's investments for the **year** to 31 March 2019 was **3.3%.** This represents an underperformance of -**2.3%** against the combined tactical benchmark, and an underperformance of **-3.8%** 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.

In January 2017 the Fund appointed Pensions & Investment Research Consultants Ltd (PIRC) to provide the universe comparisons against other LGPS funds. The PIRC Local Authority Universe comprised of 64 funds as at the end of March 2019 with a value of £193 billion. The PIRC report can be found at Appendix C

PIRC Ltd completed a Local Authority Pensions Performance Analytics report, which provides a LGPS League table of investment performance, with the Havering Pension Fund returning 3.4% well below the average of 6.6% and ranked in the bottom (100^{th}) percentile of results achieved by the LGPS Universe in 2018/19. The high commitment to Diversified Growth (the worst performing asset last year) had a large negative impact on the overall result and the portfolio being relatively underweight in equities also had a negative impact. We have requested comments to this report from our Investment Advisors Hymans.

Hymans comments in response to the Fund's performance published in PIRC report are as follows:
The overriding investment objective for the Fund is to support an affordable and stable level of contributions for the longer term. The current funding approach implies a target investment return of Gilts + 1.8% p.a. over the longer term from the Fund's assets, or c. 4% per annum in absolute terms based on yields as at 31 March 2016 (the previous valuation date).
Although returns over the 12 month period to 31 March 2019 have been behind this target (at c. 3%), the strategy has delivered returns of c. 8% per annum and c. 7% per annum over 3 years and 5 years respectively. Longer term returns are therefore substantially ahead of the long term (absolute) return deemed sufficient to support an affordable and stable level of contributions. A key challenge for the Fund is that the value placed on the liabilities has risen by more than the assets since the previous valuation. In particular, the liabilities have grown by more than 20% purely as a result of a fall in real gilt yields of c. 0.9% p.a. This has been a further, exceptional period for gilt yields which are now at historic low levels. Our long term outlook for index-linked gilts remains unchanged. We believe that valuations

are inflated relative to history and expect that, over the long term; yields will rise leading to a fall in gilt (and consequently liability) values.

The aim of the investment strategy has been and remains to deliver sufficient and stable returns, but without introducing more investment risk than is necessary. The Fund's approach is to seek long term value and diversification across a range of asset classes and managers and the strategy incorporates a lower direct allocation to equity markets than other LGPS funds, with equity exposure being partly provided through multi-asset funds. Whilst, over the last 5 years, the Fund's equity and bond allocations have consistently outperformed those of other LGPS funds although, over the 12 months to 31 March 2019, performance from the multi-asset allocation was disappointing reflecting a particularly challenging period for more tactical asset managers. This is been the primary contributor to poor 12 month performance, dragging down performance over 3 and 5 year periods.

With markets acting in a less predictable manner and traditional equity and bond markets performing strongly in overall terms, the multi-asset mandates were biased towards areas of perceived value, favouring equity markets which have lagged the strongly performing US, contributing to weaker short-term performance. The protections within the mandates, aimed at preserving capital, have also disappointed with the mandates suffering negative returns during periods of equity market falls.

The changes in strategy which have been gradually implemented over this period have seen allocations to multi-asset mandates reduced, albeit whilst retaining the underlying equity exposure. Allocations to infrastructure, global property and private debt have been introduced to the Fund's longer term strategy, offering the prospect of long-term income generation. We have confidence that the level of returns required to support affordable and stable contributions can be (at least) supported by the current investment approach.

RECOMMENDATIONS

That the Committee:

1) Note the summary of the performance of the Pension Fund within this report.
2) Consider Hymans performance monitoring report and presentation (Appendix A - Exempt).
3) Receive presentations from the Royal London Asset Management the Fund's Bonds Manager (Appendix B – Exempt)
4) Consider the quarterly reports provided by each investment manager.
5) Note the analysis of the cash balances (paragraph 3.2 refers).
6) Consider the review of the current Quarterly Performance report

7) Consider the PIRC Local Authority Pensions Performance Analytics report (Appendix C-Exempt)

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 Fund's deficit. The current shortfall has arisen largely as a consequence of the historically low level of real interest rates which have driven up the value of index linked gilts (and consequently the level of the funds liabilities). The Funds steady outperformance against strategic benchmark over the previous two years came to an abrupt halt as index-linked gilt yields fell over the quarter, pushing liability valuations up, whilst the funds return seeking assets fell sharply.

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.

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. The Fund has retained investments with Royal London which have offered some resilience to the fluctuations in interest rates over this period, but given the long term nature of the fund, the Funds investment advisors believe that the objective of pursuing a stable investment return remains appropriate. The investment strategy has therefore been evolved to provide exposure to diverse sources of investment return consistent with this objective.

1.3 The Fund will be aiming to work towards fulfilling the Long Term Asset allocations in line with the revised targets per the Investment Strategy Statement over the coming years. As the fund is currently transitioning assets over a short term asset allocation to a long term asset allocation the fund will be under or over weight to some asset classes during this time.

The asset allocations as at 31 March 2019 are shown on Table 1 together with individual Fund manager benchmarks

Table 1: Asset Allocation

Asset Class	Current Allocation 31 March 2019	Investment Manager/ product	Segregated/pooled	Active/ Passive	Benchmark and Target
UK/Global Equity	18.9%	LCIV Baillie Gifford (Global Alpha Fund)	Pooled	Active	MSCI All Countries Index plus 2.5% (gross)
	7.5%	Legal & General Investment Management	Pooled	Passive	FTSE All World Equity Index
	7.2%	Legal & General Investment Management	Pooled	Passive	FTSE RAFI All World 3000 Index
	3.4%	Legal & General Investment Management	Pooled	Passive	FTSE World Emerging Markets
Equities	**37.0%**				
Multi Asset Strategy	12.0%	LCIV Baillie Gifford (Diversified Growth Fund)	Pooled	Active	Capital growth at lower risk than equity markets
	4.5%	GMO Global Real return (UCITS)	Pooled	Active	OECD CPI g7 plus 3 - 5% over a complete market cycle
	12.9%	LCIV Ruffer	Pooled	Active	Absolute Return
Multi-Asset	**29.4%**				
Property	5.8%	UBS	Pooled	Active	AREF/IPD All balanced property Index Weighted Average
Infrastructure	4.1%	JP Morgan	Pooled	Active	CPI plus 5% (net of fees)
	1.0%	Stafford	Pooled	Active	CPI plus 5% (net of fees)
Other	1.7%	CBRE Global Property	Pooled	Active	CPI plus 5% (net of fees)
Real Assets	**12.6%**				

Table 1: Asset Allocation continued

Asset Class	Current Allocation 31 March 2019	Investment Manager/ product	Segregated /pooled	Active/ Passive	Benchmark and Target
Gilt/Investment Bonds	20.6%	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%*
Other Bonds	0.4%	Churchill	Pooled	Active	Libor + 4%
	Yet to be funded	Permira	Pooled	Active	Libor + 4%
Bonds and Cash	**21.0%**				
TOTAL	**100%**				

*0.75% prior to 1 November 2015

1.4 UBS, LGIM, GMO, Stafford, JP Morgan and Churchill 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.

1.5 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

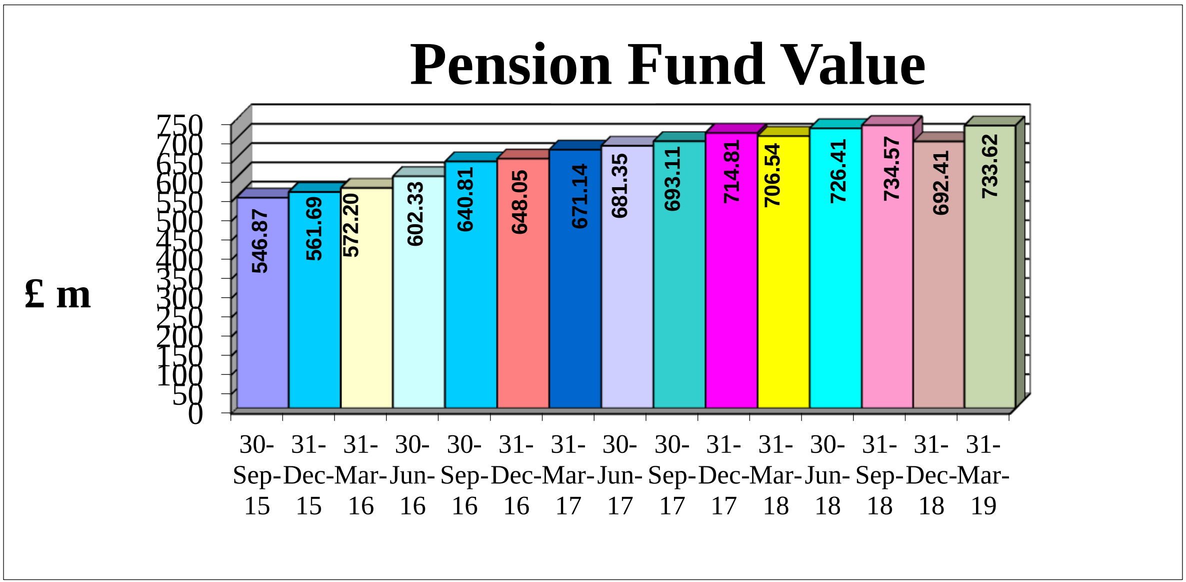
2.1 After reviewing the current reporting arrangements at the Pensions Committee held on the 5 June 2017 it was agreed that only one fund manager will attend each committee meeting, unless performance concerns override this.

2.2 The Fund Manager attending this meeting is Royal London the Fund's Bonds Manager (Appendix B- Exempt)

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 2019 was **£733.62m** 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 £692.41m at the 31 March 2019; an **increase** of **£41.21m**. Movement in the fund value is attributable to an increase in assets of £42.29m and a decrease in cash of £-1.08m. Internally managed cash level stands at **£14.20m** of which an analysis follows in this report.



Source: WM Company (Performance Measurers)

3.2 An analysis of the internally managed cash balance of **£14.20m** follows:

Table 2: Cash Analysis

CASH ANALYSIS	**2016/17 31 Mar 17**	**2017/18 31 Mar 18**	**2018/19 31 Mar 19**
	£000's	£000's	£000's
Balance B/F	**-12,924**	**-12,770**	**-17,658**
Benefits Paid	36,490	36,532	37,838
Management costs	1,358	1,221	1,358
Net Transfer Values	2,151	1,108	1,586
Employee/Employer Contributions	-40,337	-42,851	-45,126
Cash from/to Managers/Other Adj.	586	-785	7,925
Internal Interest	-94	-113	-120
Movement in Year	**154**	**-4,888**	**3,462**
Balance C/F	**-12,770**	**-17,658**	**-14,197**

3.3 Cash Analysis for WM is prepared before the finalisation of the Pension Fund accounts, the final closing cash position at 31 March 2019 £-13.698m, a revised breakdown will be provided on the Qrt1 (June19) report.

3.4 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.

3.5 The cash management policy incorporates a threshold for the maximum amount of cash that the fund should hold but introduced a discretion that allows the Chief Executive (now the Chief Operating Officer/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 implementation (possibly to fund the closed ended funds and College mergers).

3.6 During 2018, the Committee appointed three Real Asset Managers and two Private Debt managers to implement the agreed strategy. As at 31 March 2019, 28% of the commitment has been drawn by Stafford Capital, 100% of the commitment to JP Morgan (infrastructure) and 50% of the commitment to CRBE (Global Property) alongside a commitment to Churchill and Permira (Private Debt). These commitments have been largely funded by realising assets from GMO (£70m). Investments have also been made in the LGIM

Emerging Market Equity Fund as assets have been realised from GMO to maintain the underlying allocation to this asset class. To finalise implementation of the strategy, Committee has still to consider the appointment of a Multi Asset Credit Mandate, expected to be via the London CIV, and which will be progressed during 2019

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 31.03.19	12 Months to 31.03.19	3 Years to 31.03.19	5 years to 31.03.19
	%	%	%	%
Fund	6.1	3.3	8.3	7.3
Benchmark	4.6	5.7	6.9	6.7
*Difference in return	1.5	-2.3	1.3	0.5

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 31.03.19	12 Months to 31.03.19	3 Years to 31.03.19	5 years to 31.03.19
	%	%	%	%
Fund	6.1	3.3	8.3	7.3
Benchmark	6.3	7.4	10.2	10.7
*Difference in return	-0.2	-3.8	-1.7	-3.1

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 month

Table 5: QUARTERLY PERFORMANCE (AS AT 31 March 2019)

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark	Target	Performance vs Target
	%	**%**	**%**	**%**	**%**
Royal London	6.60	6.47	**0.13**	6.78	**-0.18**
UBS	0.50	0.30	**0.20**	n/a	**n/a**
GMO	3.30	0.80	**2.50**	n/a	**n/a**
LGIM Global Equity	9.62	9.61	**0.01**	n/a	**n/a**
LGIM Emerging Markets Equity Index	4.52	4.53	**-0.01**	n/a	**n/a**
LGIM Fundamental Index	7.80	7.84	**-0.04**	n/a	**n/a**
LCIV/Ruffer*	3.14	n/a	**n/a**	n/a	**n/a**
LCIV/Baillie Gifford (DGF)*	6.10	n/a	**n/a**	n/a	**n/a**
LCIV/Baillie Gifford (Global Alpha Fund)	12.42	9.80	**2.60**	n/a	**n/a**
Stafford Capital Partners Ltd	-3.80	1.10	**-4.90**	n/a	**n/a**
JP Morgan#	n/a	1.10	**n/a**	n/a	**n/a**
CBRE#	n/a	1.10	**-2.40**	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
- #not invested in this period for the entire period

Table 6: ANNUAL PERFORMANCE (LAST 12 MONTHS)

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark	Target	Performance vs Target
	%	%	%	%	%
Royal London	5.50	5.32	**0.18**	6.57	**-1.07**
UBS	6.70	4.80	**1.90**	n/a	**n/a**
GMO	-4.40	1.60	**-6.00**	n/a	**n/a**
LGIM Global Equity	10.72	10.66	**0.08**	n/a	**n/a**
LGIM Fundamental Index	6.59	6.79	**-0.20**	n/a	**n/a**
LGIM Emerging Markets Equity Index#	n/a	n/a	**n/a**	n/a	**n/a**
LCIV/Ruffer*	-0.60	n/a	**n/a**	n/a	**n/a**
LCIV/Baillie Gifford (DGF)*	0.30	n/a	**n/a**	n/a	**n/a**
LCIV/Baillie Gifford (Global Alpha Fund)	8.80	11.00	**-2.20**	n/a	**n/a**
Stafford Capital Partners Ltd#	n/a	n/a	**n/a**	n/a	**n/a**
JP Morgan#	n/a	n/a	**n/a**	n/a	**n/a**
CBRE#	n/a	n/a	**n/a**	n/a	**n/a**

Source: WM Company, Fund Managers and Hymans

- Totals may not sum due to geometric basis of calculation and rounding.
- Performance data reported as per LCIV for those funds under their management.
- # not invested in this period for the entire period

*Not measured against a benchmark

5. Fund Manager Reports

In line with the new reporting cycle, the Committee will only see one Fund Manager at each Committee meeting unless there are performance concerns for individual managers. 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) Representatives from Royal London are due to make a presentation at this committee and a brief overview follows.

b) The value of the fund as at 31 March 2019 has increased by £5.29m since the December quarter.

c) Royal London delivered a net return of 6.60% over the quarter, outperforming the benchmark by 0.13%. The mandate is ahead of the benchmark over the year by 0.18% and 0.76% since inception.

d) Royal London Asset Allocation

		%
i.	Credit Bonds (Corporate)	57.1
ii.	Index Linked Bonds	24.6
iii.	Sterling Government Bonds	10.4
iv.	RL Sterling Extra Yield Bond	5.7
v.	Overseas Bonds	0.0
vi.	Cash	2.3

(Figures subject to Rounding)

e) The Funds relative outperformance of the benchmark during the quarter was across mainly driven by the credit sector allocation as the Fund was over weight in sectors that mostly outperformed and underweight in those that underperformed.

f) Financials outperformed the broader market, with subordinated bonds leading the sector as senior issues lagged behind. The Fund’s above benchmark position in subordinated financial debt and underweight holding in senior issues contributed to performance.

g) The Fund's holding in the Royal London Sterling Extra Yield Bond Fund was retained, delivering a gross return of 3.24% over the quarter, this lagged behind sterling investment grade credit, and consequently this holding had a negative effect on performance.

5.2. Property (UBS)

a) UBS last met with the Committee on 24 July 2018 which reviewed performance as at 31 March 2018

b) The value of the fund as at 31March 2019 decreased by £1.77m since the December quarter.

c) UBS delivered a net return of 0.50% over the quarter, out performing the benchmark by 0.20%. The mandate is ahead of the benchmark over the year by 1.90% and 0.90% over 5 years

d) UBS Sector weighting:

		%
i.	Industrial	41.8
ii.	Retail warehouse	25.9
iii.	Office	20.2
iv.	Other Commercial Property	12.1

e) The slow down in performance continues from Q4 18, with the MSCI Monthly all Property Index return for January and February combined coming in at just 0.3%. Overall performance continues to suffer from the negative returns in the retail sector, which has yet to reach the floor in its ongoing structural correction.

f) Brexit related uncertainty impacted investment activity, with recorded transactions for Q1 19 at just £8.9billion, although this is expected to slightly increase in the next couple of weeks, there is a chance that this is the first quarter since 2013 that volumes fail to reach £10 billion. It is expected that activity will bounce back if a deal is made with the EU in the coming weeks

/months, but until that time, the threat of no deal scenario will continue to subdue the market

5.3. Multi Asset Manager (GMO – Global Real Return (UCIT Fund - Undertakings for collective investments in transferrable securities)

a) GMO last met with the committee on 11 December 2018 which reviewed performance as at 30 September

b) During the quarter the fund has been reduced by £70m drawdown which was utilised in funding the new three Real Asset Managers, after taking this into account the Fund has increased in value by £1.97m since the December quarter.

c) GMO have outperformed their benchmark over the quarter by 2.50%, underperforming benchmark at 12 month and since inception

d) GMO asset Allocation:

		%
i.	Equities	42.4
ii.	Alternative strategies	30.8
iii.	Fixed Income	21.9
iv.	Cash/Cash Plus	4.9

This Fund has been used to fund the real asset mandates, and a continued periodical disinvestment will occur as and when required.

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

a) LGIM last met with the Committee on 18 September 2018 which reviewed performance as at 30 June 2018

b) This mandate benefits from fee reductions as negotiated by the LCIV and is recognised as a mandate under the London CIV

c) The passive equity mandate is split between the FTSE RAFI All World 3000 index, FTSE All World Index and the FTSE Emerging Markets Index.

d) As anticipated from an index-tracking mandate LGIM has performed in line with the benchmark since inception, delivering a net return on the FTSE RAFI All World 300 index of 9.62% out performing the benchmark by 0.01% a net return on the FTSE Rafi AW 3000 Equity Index of 7.80% underperforming the benchmark by -0.04% and a net performance on the FTSE Emerging Markets Equity Index of 4.52% underperforming the benchmark by -0.01% (not invested for the entire quarter in this index)

5.5. Multi Asset Manager – London CIV (Ruffer)

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

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.

b) Ruffer last met the committee on 19th March 2019 which reviewed performance as at 31 December 2018.

c) The value of the fund has increased by £2.89m since the December quarter.

d) Since inception with the London CIV, Ruffer returned 3.10% over the quarter, -0.60% over the year and 2.68% 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.

e) The fund had a net return of 3.10% this quarter. The Funds gains were mainly due as a result of the inflation linked bond position and the equity portfolio, especially from cyclical Industries. These stocks recovered most of their losses from a turbulent Qrt4

f) The largest contributor to performance was the exposure to US Inflation Linked bonds, driven by higher inflation expectations from market response following the Fed actions

g) Equity Protection continued to be a negative contributor, the credit swaps held within the fund also negatively contributed to the portfolios performance as investors returned to more risky assets.

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 last met the committee on 19th March 2019 which reviewed performance as at 31 December 2018.

.

c) The value of the Baillie Gifford Global Equities mandate fund increased by £15.20m since the December quarter.

d) Since inception with the London CIV the Global Alpha Fund delivered a return of 12.42% over the quarter, outperforming the benchmark by -2.60% delivered a return of 8.80% over the year, underperforming the benchmark by -2.20 and since inception with the London CIV the fund returned 18.62% outperforming the benchmark by 3.36%.

e) The outperformance this quarter was largely due to positive signs from trade talks between the US and China that boosted returns. The fund remains largely exposed to North America and Emerging markets, with a 47% and 21% of total stock selection, respectively. This quarter the fund rebalances its best performing positions in Amazon and Banco Bradesco, in order to introduce new additions to the portfolio; Amazon still remains one of the funds largest holdings in the portfolio and continues to perform strongly. New purchases include Reliant Industries, a giant Indian based refining and marketing conglomerate, which has recently established ‘RelianceJio’- the largest mobile network in the world, LCIV Global Alpha believe that this addition will continue to develop revenue generating opportunities in the future, which are currently undervalued by the market. The fund increased it's exposure to Alibaba by 1.2% to 3.2% as a result of a positive partnership structure and future growth potential.

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 last met the committee on 19th March 2019 which reviewed performance as at 31 December 2018.

c) The value of the Baillie Gifford Diversified Growth mandate fund increased by £5.00m since the December quarter.

d) The Diversified Growth mandate delivered a return of 6.10% over the quarter, 0.30% over the last year and 6.15% 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 had a positive performance this quarter. Following the weakness in risk markets the manager took the opportunity to top up certain holding based on price weakness. New additions to the portfolio were made through commercial property holdings, namely, the UK Real Estate Investment Trusts (REITS), which they believed were undervalued by up to 40%, providing an attractive investment opportunity. The fund also continues to focus on the emerging market companies, particularly China stock after an improvement in US and China relations. The China markets remains dynamic as the economy appears to have boomed this quarter, outperforming most western economies.

5.8 Private Markets Investments

The Fund has made commitments to five private markets funds (Permira not yet invested), the bulk of the monies committed to these funds have not been drawn at 31st March 19.

Table below shows a summary of commitments as at 31st March 2019

Mandate Vehicle	Infrastructure		Global Property	Private Debt
	Stafford	JP Morgan	CBRE	Churchill
Commitment date	25-Apr-18	31-Jul-18	30-Sep-18	Dec-18
Fund Currency	EUR	USD	USD	USD
Gross commitment	£25m (EUR 28.5m)	£30M (USD 34M)	£30M (USD XXM)	£22M (USD 31M)
Net Capital called during Quarter	-	£30M (USD 34M)	£13.2M (USD 17M)	£3.0M (USD 3.9M)
Net Capital called to date	£7.0M (EUR 8.1M)	£30M (USD 34M)	£13.2M (USD 17M)	£3.0M (USD 3.9M)
Other distributions to date	£0.9M (EUR 0.8M)	-	-	-
Nav Quarter End	£6.3M (EUR 7.3)	£25.9M (USD 33.8)	£26.3M (USD 34.3M)	£3.0M (USD 3.9M)
Net IRR since inception	7.3%pa* (vs 8-9% target)		5.0%	
Net Yield since inception	4.8%pa* (vs5% target)		4.0%	
No of holdings	8 funds, 171 underlying assets		51 Investments, 2297 properties	

Source: Investment managers. *Based on information avalaible as at the end of the previous quarter

5.9 London CIV Update

a) **Signing of the 'Pension Cost Recharge Agreement' and 'Pension Guarantee'**. The current position is that the LCIV are seeking information from the boroughs with regards to the decision making process and whether boroughs are likely to require independent legal advice. Officers are in the process of obtaining sign of for these agreements. The next London CIV AGM is on Thursday 18 July 2019

b) LCIV have announced the appointment of a permanent Chief Investment Officer (CIO) – Mark Thompson starting 2nd September, Mark will take over from Michael Pratten, who has been acting as our interim CIO whilst the recruitment for a permanent CIO has been ongoing. Michael will continue to lead the Investment team and help deliver the current pipeline of fund launches until Mark joins in September.

6.0 Proposed changes to future performance reports

We are undertaking a review of the current Quarterly Performance report. We acknowledge that there is an element of duplication within our report and Hymans Performance report. To that end we propose to no longer include our Fund Manager reviews, which are already extensively covered by Hymans, but include when appropriate more topical LPGS news that may affect the Pension Fund. We would like to make these changes by the next Quarterly meeting (September 19) and would welcome any views on items that you would like us to cover.

6.1 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:

Royal London Asset Management

- 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:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

(i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;

(ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;

(iii) Foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the

Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

An EIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected

BACKGROUND PAPERS

None

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Havering
LONDON BOROUGH

PENSIONS COMMITTEE 24 JULY 2019

Subject Heading:	**PENSION FUND ANNUAL REPORT-YEAR ENDED 31 MARCH 2019**
SLT 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 2018/19 which has been prepared in accordance with Regulation 57 of the Local Government Pension Scheme (LGPS) 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 note the progress of the Draft 2018/2019 Pension Fund Annual Report to date

2. The Committee agree the Pension Fund Annual Report will be published electronically once finalised.

3. That the Chair and the Statutory Section 151 officer be authorised to conclude and approve the final version of the Pension Fund Annual Report.

REPORT DETAIL

1 Background

1. The statutory basis for LGPS Fund annual reports is Regulation 57 of The LGPS Regulations 2013. It states that an administrating authority must in relation to each year prepare a document ('the annual report').
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 2018 to 31 March 2019.

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 annual report, the authority must have regard to guidance given by the Secretary of State.

5. Authorities should use guidance as published by the Chartered Institute of Public Finance & Accountancy (CIPFA).

6. The Annual report attached as **Appendix A** has been prepared in accordance with the guidance issued by. CIPFA in 2014 and 2019.

7. The CIPFA 2019 guidance includes additional new data requirements and these have been accommodated where practicable and where not available and disclosure is mandatory explanations have been provided.

8. 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 auditor's opinion will be included in the annual report.

9.
10. 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.

11. At the time of writing this report the 2018/19 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 audit deadline is the 31 July 2019

The planned cost of a separate audit opinion for the 2018/19 pension fund accounts is £16,170, 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:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

i. the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
ii. the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
iii. foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants

An EIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected

BACKGROUND PAPERS

None

HAVERING PENSION FUND ANNUAL REPORT MARCH 2019

Pensions Regulator Registration Number 10027841

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

Tel: 01708 432217
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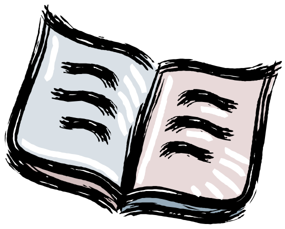

Trustee Report

Foreword to the Annual Report of the Havering Pension Fund for the year ended 31st March 2019

I am reporting that in 2018/19 that although investments grew by 3.3% (increase in net assets of £26m), which was below target, the Fund's investment strategy delivered returns of c 8% per annum and 7% per annum over the 3 years and 5 years respectively. Longer term returns are therefore substantially ahead of the long term (absolute) return deemed sufficient by the scheme actuary to support an affordable and stable level of contributions. Further information on the Fund's investment performance can be found on pages 24-28 of this report.

During 2018/19 there has been major progress toward implementing the Fund's revised Investment Strategy which seeks long term value and diversification across a range of asset classes and managers and since the last report have commenced funding its Infrastructure and Global Property mandates. The Fund also appointed two Private Debt Managers in collaboration with four other London Borough Pensions Funds. One manager commenced funding and the other manager will commence funding during 2019/20. These allocations offer the prospect of long term income generation thereby reducing the strain on contributions as the Fund matures.

A key challenge for the Fund is that the value placed on the liabilities has risen by more than the assets since the previous valuation. In particular, the liabilities have grown by more than 20% purely as a result of a fall in real gilt yields of c. 0.9% p.a. This has been a further, exceptional period for gilt yields which are now at historic low levels. We believe that valuations are inflated relative to history and expect that, over the long term; yields will rise leading to a fall in gilt (and consequently liability) values.

Assets held under management (AUM) by the London asset pool known as the London CIV (LCIV) have increased to £454.8m (£408.7m 2017/18) (63% of the Fund) (59% 2017/18). This Fund has the third highest proportion of AUM in the LCIV pool underlining this Committee's commitment to asset pooling. The increase in year is mainly attributable to a change in market value of existing mandates and new investments in the Legal and General Investment Management – Emerging Markets passive fund. Since inception and net of LCIV charges the fund has seen savings in the region of £108k. The procurement of private debt managers was undertaken outside the LCIV as no such strategy was available on their platform at the time. However the Fund collaborated with other London Local Authorities to obtain asset pool type buying power to secure best value on negotiated management fee rates.

The Committee had to deal with a number of important issues, which are listed on pages 48-49 of the report and its members attended relevant training and development seminars, listed on pages 46-47. An overview of the activities of the Pension Administration team is contained on pages 29-37 of the report.

2019/20 will see the Fund continue with the development and implementation of its Investment Strategy and receive results of the 2019 triennial valuation that will establish the employer contribution rates from 2020/21 onwards.

I would like to thank the members of the Committee for their hard work and dedication.

I would like to thank the Local Pension Board for the work it has done in 2018/19 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 88.

Councillor John Crowder. Chairman – Pensions Committee

INTRODUCTION

The Annual report has been prepared in accordance with the guidance issued by The Chartered Institute of Public Finance & Accountancy (CIPFA) in August 2014 and March 2019. The CIPFA 2019 guidance was not available until March 2019 and includes additional new data requirements and these have been accommodated where practicable, where not practicable and disclosure is mandatory explanations have been provided.

The London Borough of Havering is an Administering Authority and operates a pension fund (the 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 LGPS 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 with one employer choosing to select an open arrangement. 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 the Local Pensions Partnership (LPP), our Fund Administrators 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 1^{st} April 2014, plus a CARE pension based on $1/49^{th}$ or $1/98^{th}$ of each year actual pensionable pay for membership from 1^{st} 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. 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 whilst in service.
- 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.

Overall Fund Management 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).

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.

From 1 November 2017, the London Borough of Havering delegated the pension administration service to Lancashire County Council (LCC) who has engaged the Local Pension Partnership (LPP) to undertake their pension's administration. The LPP monitor and manage the pension's employers and employee contributions into the Fund. They also undertake risk management responsibilities in respect of employers in the Fund. The LPP are the main contact point for employees who wish to join the scheme, for advice on procedures and for queries and complaints.

Chief Executive	Andrew Blake-Herbert
Section 151 Officer	Jane West
Pensions Administration Management	Sarah Bryant Director of Exchequer & Transactional Services (oneSource)
Pension Fund Manager (Finance)	Debbie Ford (oneSource)
Fund Administrator	Local Pension Partnership (LPP)
Legal Advisers	London Borough of Havering Legal Services (oneSource) provide legal advice as necessary Bevan Brittan (Specialist Advice)
Fund Actuary	Hymans Robertson LLP
Fund Investment Advisers	Hymans Robertson LLP
Investment Managers	Royal London Asset Management (Investment Bonds) UBS (Property) Ruffer LLP (Multi Asset) (transferred to London CIV 21 June 2016) Legal & General Investment Management 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) Stafford Capital – Real Assets Infrastructure (from June 18) JP Morgan – Real Assets Infrastructure (from July18) CBRE – Real Assets Global Property (from August 19) Churchill Asset Management – Private Debt (from December 18) Permira Credit Solutions– Private Debt (from January 19)
Asset Pool Company	London Collective Investment Vehicle (London CIV)
Fund Custodians	State Street Global Services
Performance Measurement	State Street Global Services – Performance Services PLC (formerly WM Company)

	Pensions & Investment Research Consultants Limited (PIRC)
Bankers	National Westminster Bank PLC
Auditors	Ernst and Young LLP and Internal Audit (as required)
AVC Providers	Prudential Standard Life

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)
Marshalls Park Academy (Academy from 1 April 2017)
NEW: Gaynes Academy (Academy from 1 July 2018)
NEW: Sanders Academy (Academy from 1 September 2018)

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)
Forest Approach (formerly 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)
Scargill Infant Academy (Academy from 1 September 2017)
Scargill Junior Academy (Academy from 1 September 2017)
Whybridge Junior Academy (Academy from 1 September 2017)
Harrow Lodge Academy (Academy from 1 March 2018)
NEW: Hacton Academy (Academy from 1 September 2018)
NEW: Dame Tipping Academy (Academy from 1 September 2018)

Admitted Bodies:

Sports and Leisure Management Ltd – Fitness and Health
Sports and Leisure Management Ltd – Charitable Trust
Breyer Group Repairs (joined 1 March 2014 - pending legal agreement)
Breyer Group Voids (joined 1 June 2014 – pending legal agreement)
Caterlink (ceased December 2018)
Sodexo (ceased February 2019)
Accent Catering Services (joined 1 September 2015)
Harrison Catering (joined 1 October 2017)
NEW: Lewis and Graves Cleaning (joined 1 August 2018 – 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 Investment Strategy Statement
- 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 Actuary (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.

Summary of assurance reports received is shown below:

Fund Manager		Period of Report	Assurance obtained	Reporting accountant
Legal and General	ISAE 3402	1 January 2018 to 31 December 2018	Reasonable Assurance	KPMG
London CIV		* Not available but see statement below		Deloitte LLP
London CIV – Baillie Gifford	ISAE 3402	1 May 2017 to 30 April 18	Reasonable Assurance	PricewaterhouseCoopers
London CIV - Ruffer	ISAE 3402	1 April 2017 – 31 March 2018	Reasonable Assurance	Ernst & Young
UBS	ISAE 3402	1 January 2017 – 31 December 2017	Reasonable Assurance	Ernst & Young
State Street	SOC 1	1ST October 2017- 30 September 2018	Reasonable Assurance	Ernst & Young
GMO	ISAE 3402	1 October 2017 – 30 September 2018	Reasonable Assurance	PricewaterhouseCoopers
HG Capital	ISAE 3402	1 January 2018 – 31 December 2018	Reasonable Assurance	Deloitte LLP
J P Morgan	ISAE 3402	1 October 2017 – 30	Reasonable	Ernst & Young

Fund Manager		Period of Report	Assurance obtained	Reporting accountant
		September 2018	Assurance	
CBRE	ISAE 3402	1 January 2018 – 31 December 2018	Reasonable Assurance for areas tested.	KPMG
Churchill	SOC1	1 October 2017 – 30 September 2018	Reasonable Assurance	Ernst & Young
Royal London	ISAE 3402	1 October 2017 – 30 September 2018	Reasonable Assurance	PWC
Stafford	Not applicable to Luxemburg	As at April 2019	Stafford Controls Summary	EY

**"We recognise that we need to implement an ISAE 3402/AAF or an equivalent and have discussed this requirement with our auditors, Deloitte. Deloitte advised that for a recent financial services start up like LCIV it requires a stable and proven infrastructure to be ready for this type of review as an organisation needs to demonstrate a proven and auditable operating process before an ISAE 3402/AAF becomes meaningful. Over the last two years we have been progressing the building of the infrastructure, including systems procurement and the resources to allow us to get to that position".*

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.

Internal Audit Assurances
From 1 November 2017, the London Borough of Havering delegated the pension administration service to Lancashire County Council (LCC) who have engaged the Local Pension Partnership (LPP) to undertake their pensions administration

To provide assurance to management, the Local Pension Board and the Audit Committee that risks are being adequately managed. The Council's Internal Auditors undertook a review of the effectiveness of the monitoring arrangements of the Council's contract with LCC, to ensure compliance. This review also assessed the assurances being provided to LCCl, by LPP, in relation to the administration of Havering Council's Pension Fund.

As responsibility for the day to day administration of the pension fund has been contracted to LCC, the Council are reliant on the provision of information to give assurances that risks are being adequately managed. Notification has been provided by LPP that an audit was undertaken by Mazars in January 2018 which yielded an 'Effective' assurance rating.

Details on how these risks are mitigated are included in the **Risk Register** and **Business Continuity Plan**.

Risk Register

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 was reviewed and updated in November 2018. A comparison of the Risk Register was then compared to the updated CIPFA '*Managing Risk in the LGPS"* published in December 2018 to ensure consistency with the guidance.

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 on board or exit 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. The Risk Register is a 'live 'document and therefore all risks are reviewed continually to ensure that they remain relevant and that the controls are in place to manage risks where feasible. From April 2019 this will be a standing agenda on the Local Pensions board agenda

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

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 is now a standing item on the Local Pension Board agenda to ensure continual review.

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 understands 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 -.From 1 November 2017 the Pensions Administration is provided through a delegated arrangement and is supplied by Local Pensions Partnership (LPP) which is a joint venture between LCC and London Pensions Fund Authority (LPFA).

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

In June 2014 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.

	2017/18 Actual £000	2018/19 Estimate £000	2018/19 Actual £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Administration & Processing	500	565	*770	570	570	570
Other Fees	12	8	5	20	20	20
Other Costs	20	30	26	30	30	30
TOTAL	**532**	**603**	**801**	**620**	**620**	**620**

*Includes one off agency costs and GMP reconciliation costs of £148k during 2018/19.

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.

	2017/18 Actual £000	2018/19 Estimate £000	2018/19 Actual £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Fund Manager Fees	3,188	3,261	3,895	3,900	3,900	3,900
Custodian Fees	20	20	23	25	25	25
Performance Measurement services	16	11	27	30	30	30
Transaction costs	122	-	358	360	360	360
TOTAL	**3,346**	**3,292**	***4,303**	**4,315**	**4,315**	**4,315**

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 2019/20 onwards
- Increased management costs due to Fund manager sign up to transparent reporting of costs and new fund manager catch up fees (Stafford).

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.

	2017/18 Actual £000	2018/19 Estimate £000	2018/19 Actual £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Financial Services	147	147	142	147	147	147
Actuarial Fees	36	50	20	50	25	25
Audit Fees	18	21	16	16	16	16
Member Training (inc. LPB)	1	10	4	10	10	10
Advisor Fees	89	50	71	65	65	65
London CIV	101	93	98	100	100	100
Local Pension Board	5	5	4	5	5	5
Pensions Committee	29	36	38	40	40	40
Other Fees	-	-	26	10	10	10
TOTAL	**426**	**412**	**419**	**443**	**418**	**418**
OVERALL MANAGEMENT TOTAL	**4,304**	**4,307**	**5,523**	**5,378**	**5,353**	**5,353**

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	Cash Movement 2015/16	Cash Movement 2016/17	Cash Movement 2017/18	Cash Movement 2018/19	Cumulative Cash balance (c/f)
Income						
Predictable		(33.1)	(33.4)	(36.4)	(43.2)	
Unpredictable		(10.4)	(8.8)	(10.2)	(2.4)	
Sub Total		**(43.5)**	**(42.2)**	**(46.6)**	**(45.6)**	
Benefit Payments						
Predictable		29.4	31.2	31.4	40.0	
Unpredictable		8.8	11.2	10.2	9.6	
Sub Total		**38.2**	**42.4**	**41.6**	**49.6**	
Total	**(7.6)**	**(5.3)**	**0.2**	**(5.0)**	**4.0**	**(13.7)**

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. The cash flow policy allows 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 held to fund elements of the ongoing investment strategy implementation and /or to fund the college merger transfer to the LPFA.

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 (other than as set out above) 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. Working 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.

Contributions to the Fund

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. Employee contribution rates for 2018/19 are set out in the table below:

Band	Actual Pensionable Pay Band Ranges £	Contribution Rate Main section Gross % rate	Contribution Rate 50/50 Section Gross % rate
1	Up to14,100	5.50	2.75
2	14,101 – 22,000	5.80	2.90
3	22,001 – 35,700	6.50	3.25
4	35,701 – 45,200	6.80	3.40
5	45,201 – 63,100	8.50	4.25
6	63,101 – 89,400	9.90	4.95
7	89,401 – 105,200	10.50	5.25
8	105,201 – 157,800	11.40	5.70
9	157,801 or more	12.50	6.25

- 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 2018/19 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 next valuation will take place as of 31 March 2019 and new employer rates will apply from 1st April 2020.

Further details of the LGPS, including the protections that are in place for benefits accrued prior to 1 April 2014, can be found in the factsheet link here.

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 Authority's minimum employer's contribution for employees in 2018/19 was 15.6% of salary plus cash of £11.150m (2017/18 15.6% plus cash of £9.650m). 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.

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 and employer 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 or provide a guarantee which protects the Fund against default payments. There are currently two admitted bodies in the fund

The following table 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)	4,686	5,473,236	29,473,852
SCHEDULED BODY:			
Havering College of Further & Higher Education	263	287,641	1,306,796
Havering Sixth Form College	92	104,268	375,362
The Brittons Academy Trust	61	60,537	280,396
The Frances Bardsley Academy for Girls	71	71,714	276,585
The Campion School	72	83,757	270,263
Drapers Academy	54	72,288	270,000
Hall Mead School	82	63,935	254,342
Coopers' Company & Coborn School	47	54,586	225,844
Redden Court School	62	57,995	221,995
St Edward's Church of England School & Sixth Form	48	49,049	207,634
Marshalls Park Academy	54	40,280	193,207
Ravensbourne Academy (Hornbeam Academy)	69	47,053	187,834
Bower Park Academy	50	44,906	186,601
Sacred Heart of Mary Girls' School	51	36,107	172,450
Royal Liberty Academy	39	40,067	159,797
Emerson Park Academy	62	41,243	156,552
Drapers Pyrgo Primary	79	34,135	144,234
The Chafford School (Harris Academy)	32	37,748	140,332
The Albany School	56	36,398	130,548
Forest Approach (Dycort School) (Hornbeam Academy)	46	36,804	120,188
Abbs Cross Academy and Arts College	38	27,445	115,325
Harrow Lodge Academy (formerly Wykeham School)	53	28,517	114,167
Rise Park Junior Academy	45	21,367	89,849
Oasis Academy (Pinewood)	35	21,911	87,894
Benhurst Primary	30	26,981	82,688
Scargill Infant Academy (Hornchurch Academy Trust)	29	19,238	81,692
Sanders	35	19,885	81,082
Drapers Brookside Infant Academy	30	18,882	76,664
Drapers Brookside Junior Academy	28	17,164	71,625
Whybridge Junior Academy (Hornchurch Academy Trust)	18	15,068	71,016
Hacton Academy	51	15,726	66,975
Rise Park Infant School	33	14,860	65,802
Scargill Junior Academy (Hornchurch Academy Trust)	22	14,156	65,472
Gaynes Academy	23	14,349	64,262
Upminster Junior Academy	21	14,104	63,935

Contributing employers	Active Members	Contributions from Members £	Contributions from Employers £
Upminster Infant Academy	24	11,145	50,795
Langtons Junior Academy	28	13,238	50,760
Drapers Mayland Primary Academy	7	10,015	41,545
Dame Tipping School	15	5,689	24,545
Olive Academy (Birnum Wood)	4	5,398	23,773
Concordia Academy	2	5,360	15,583
Scheduled Body Total	**1,961**	**1,641,009**	**6,686,409**
ADMITTED BODIES:			
Sports & Leisure Management – Charitable Trust	44	48,613	195,254
Sports & Leisure Management – Fitness and Health	3	2,833	11,834
Breyer Group Voids	2	5,792	18,008
Breyer Group Repairs	7	14,800	50,917
Accent Catering	6	4,402	24,104
Harrison Catering	3	2,316	15,902
Sodexo (ceased)	0	1,472	14,805
Caterlink (ceased)	0	655	(6,000)
Lewis & Graves	5	1,962	11,703
*Citizens Advice Bureau	0	-	9,600
Admitted Bodies Total	**70**	**82,845**	**346,127**
TOTAL	**6,717**	**7,218,875**	**36,506,389**

*Cessation repayment

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
2018/19	25,083	21,603	3,480

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 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.

The total value of contributions paid into the fund was £43,725,264, made up of employer contributions of £36,506,389 and employee contributions of £7,218,875. Late contribution payments were made by one new admitted body. These were due to the late notification of the award of the outsourced contract and the employer contribution rate not being established in time. This was not considered to be material and charges were made.

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.

The Pensions Committee are currently working towards adopting a formal Statement of Investment Beliefs for the Fund. To establish those beliefs, the Fund's Investment Advisors developed a questionnaire to gather the Committee views on a range of areas relating to the Fund's investment approach.

The Pensions Committee believe that having a clear set of investment beliefs can improve governance by providing a framework for all investment decisions. It will provide a rationale for the decision making process and drive the ISS going forward.

<u>Investment Strategy Statement</u> - 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 LGPS.

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) now known as the Ministry of Housing, Communities and Local Government (MCHLG).

The ISS, which was last 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.

<u>Myners</u> - 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.

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. Current reporting arrangements are that 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 24 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.

ASSET ALLOCATION

The Fund Managers and the market value of assets under their management at 31 March 2019 are as follows:

Manager	Mandate	Value £000	Proportion of Total Fund %
Investments managed directly by London CIV asset pool:			
London CIV Ruffer	Pooled Multi Asset Absolute Return	94,692	13.16
London CIV Baillie Gifford	Pooled Global Equities	138,095	19.20
London CIV Baillie Gifford DGF	Pooled Multi Asset	87,740	12.20
London CIV	Share Holding	150	0.02
		320,677	**44.58**
Life Fund Investments aligned with London CIV asset pool:			
Legal & General Investment Management	Passive UK/Global Equities	132,172	18.37
	LCIV Total	**452,849**	**62.95**
Investments managed outside of London CIV asset pool:			
Royal London	Active Investment Grade Bonds	135,062	18.77
UBS	Pooled Property	43,541	6.05
CBRE	Pooled Global Property	13,422	1.87
GMO	Pooled Multi Asset	34,450	4.79
Stafford	Pooled Infrastructure	7,791	1.08
JP Morgan	Pooled Infrastructure	29,241	4.06
Churchill	Pooled Private Debt (North America)	3,072	0.43
	Other (Tax refunds)	8	0.00
		266,587	**37.05**
	Total Fund	**719,436**	**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 2018	Actual Asset allocation March 2019	Asset Allocation March 2019 vs ISS Short Term Target
	%	%	%	%	%
Equities	**30.0**	**40.0**	**31.9**	**37.0**	**7.0**
Passive Global Equity	7.5	10.0	6.9	7.5	0.0
Fundamental Equity	7.5	10.0	7.0	7.2	-0.3
Passive Emerging Markets	-	-	-	3.4	3.4
Active Global Equity	15.0	10.0	18.0	18.9	3.9
Other Equity	-	10.0	-	-	-
Multi Asset	**42.5**	**20.0**	**42.2**	**29.4**	**-13.1**
Absolute Return	15.0	10.0	13.5	12.9	-2.1
Diversified Growth	12.5	10.0	12.4	12.0	-0.5
Real Return	15.0	-	15.3	4.5	-10.5
Real Assets:	**8.5**	**17.5**	**5.8**	**12.6**	**4.1**
Property	6.0	6.0	5.8	5.8	-0.2
Infrastructure	2.5	7.5	-	5.1	2.6
Other Real assets	-	4.0	-	1.7	1.7
Bonds and Cash	**19.0**	**22.5**	**21.1**	**21.0**	**2.0**
Conventional Bonds	19.0	5.0	18.5	18.5	-0.5
Other Bonds	-	17.5	-	0.4	0.4
Cash	-	-	2.6	2.1	2.1
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.

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. As the Fund is currently transitioning assets from the short term asset allocation position to the long term asset allocation the fund will be under or over weight to some asset classes during this time.

Significant changes during 2018/19 were as follows:

- Following the appointment of Real Asset Managers for Infrastructure and Global Property in March 2018 the fund has commenced funding these mandates. To date these mandates have been funded from internal pension fund cash balances and drawdowns from one of the funds multi asset manager (GMO). Further funding will continue during 2019/2020.
- To retain exposure to emerging markets lost through disinvestments with GMO the Fund has also transferred cash to Legal and General Investment Management (LGIM) passive Emerging Market Fund.
- In August 2018 the Fund appointed two Private Debt Managers, Churchill and Permira. These mandates will be funded from drawdowns with the current bond manager. Churchill has commenced funding with Permira capital calls expected in the latter half of 2019.

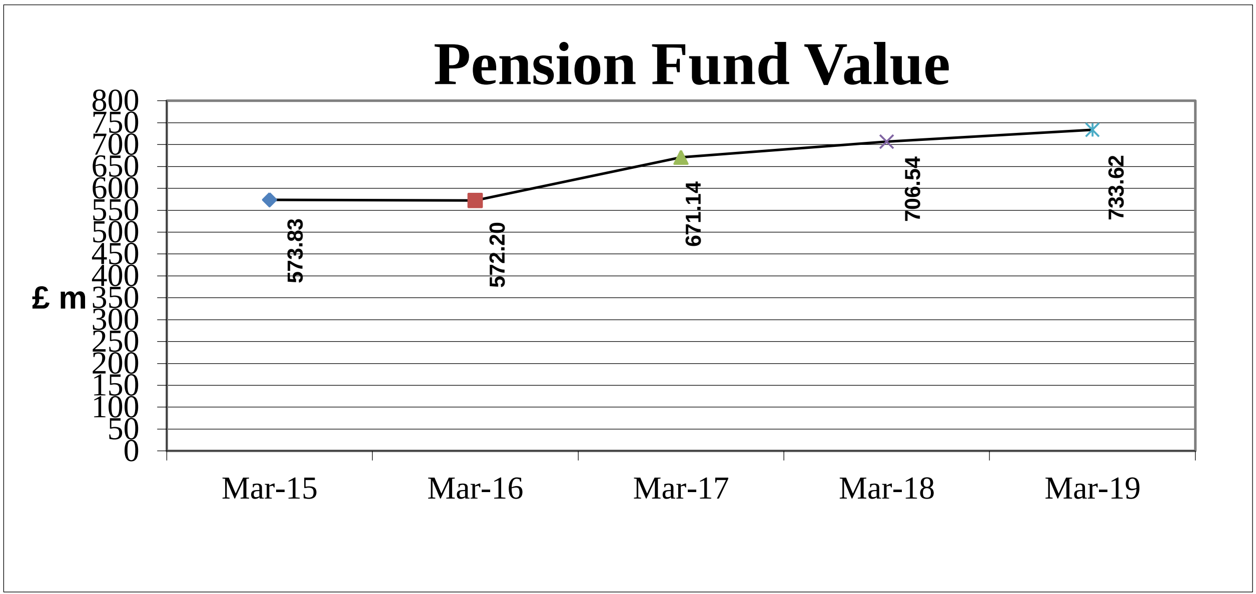
INVESTMENT PERFORMANCE

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 **£733m** for 2018/19 from £707m in 2017/18, a net increase of **£26m**.

The net increase of **£26m** is compiled of a change in the market value of assets of £16m, investment income of £11m, net additions of cash of £4m and offset by management expenses of (£5m). 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.

In 2018/19, the overall return on the Fund's investments was **3.3%** (2017/18 4.9%). This represented an underperformance of **-2.3%** against the tactical benchmark (2017/18 out performance of 2.3%) and an under performance of **-3.8%** against the strategic benchmark (2017/18 outperformance of 2.5%).

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

	1 year to 31.03.18 %	1 year to 31.03.19 %	3 Years to 31.03.19 %	5 years to 31.03.19 %
Fund Return	4.9	3.3	8.3	7.3
Tactical Benchmark	**2.6**	**5.7**	**6.9**	**6.7**
Performance	2.3	-2.3	1.3	0.5
Fund Return	4.9	3.3	8.3	7.3
Strategic Benchmark	**2.3**	**7.4**	**10.2**	**10.7**
Performance	2.5	-3.8	-1.7	-3.1

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

A **strategic benchmark** has been adopted for the overall Fund of 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 Fund's assets have underperformed over the longer time periods. Underperformance over 12 months and 3 years is largely due to significant underperformance in Q4 2018 when growth markets fell in value relative to bonds.

Relative performance over 5 years continues to include a period of substantial falls in real gilt yields which is anticipated will have led to substantial growth in the value of the liabilities, although this position has improved in recent years. Performance over 3 years is behind the strategic benchmark, reflecting weaker performance from equities relative to bonds in recent years.

Tactical benchmark - 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	Investment Manager/ product	Segregated / pooled	Active/ Passive	Benchmark and Target
Equities				
UK/Global Equity	LCIV Baillie Gifford (Global Alpha Fund)	Pooled	Active	MSCI All Countries Index plus 2.5%
	Legal & General Investment Management	Pooled	Passive	FTSE All World Equity Index
	Legal & General Management	Pooled	Passive	FTSE RAFI All World 3000 Index
	Legal & General Investment Management	Pooled	Passive	FTSE Emerging Markets
Multi-asset				
Multi Asset	LCIV Baillie Gifford (Diversified Growth Fund)	Pooled	Active	Capital growth at lower risk than equity markets
	GMO Global Real return (UCITS)	Pooled	Active	OECD CPI g7 plus 3 - 5%
	LCIV Ruffer	Pooled	Active	Absolute Return
Real assets				
Property	UBS	Pooled	Active	IPD All balanced (property) Fund's median +
Infrastructure	JP Morgan	Pooled	Active	CPI + 5% p.a (net of fees)
	Stafford			CPI + 5% p.a (net of fees)
Other Real Assets	CBRE Global Property	Pooled	Active	CPI + 5% p.a (net of fees)
Bonds and Cash				
Gilt/Investment Bonds	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%*
Private Debt	Churchill Nuveen			LIBOR + 4%
	Permira			LIBOR + 4%
TOTAL				

*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 2019:

Fund Manager	Return (Performance)	Benchmark	Performance vs benchmark
LCIV Ruffer	-0.6	n/a	**-1.1**
LCIV Baillie Gifford (Global Alpha Fund)*	8.8	11.0	**-2.0**
LCIV Baillie Gifford (DGF) *	0.3	n/a	**n/a**
LGIM Global Equity**	n/a	n/a	**n/a**
LGIM Fundamental Index**	n/a	n/a	**n/a**
Royal London	5.4	5.3	**0.1**
UBS	6.7	4.8	**1.9**
CBRE**	n/a		
GMO (GRRUF)	-4.4	1.6	**-5.8**
Stafford**	n/a	n/a	**n/a**
JP Morgan**	n/a	n/a	**n/a**
Churchill**	n/a	n/a	**n/a**

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

- *The objective is to achieve long term capital growth at lower risk than equity markets and not measured against a benchmark.
- **Performance is not shown as they were not invested for entire period but short term performance is included within the overall fund performance
- Funding not commenced with Permira as at 31st March 2019

In January 2017 the 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 64 funds as at the end of March 2019 with a value of £193 billion.

Universe comparisons can be seen in the tables that follow:

Universe Fund Performance

	2018/19			
Universe data	**1 Year %**	**3yrs % pa**	**5yrs % pa**	**10yrs % pa**
Fund Return	3.4	8.3	7.4	10.5
Universe Average	**6.6**	**10.5**	**8.8**	**10.7**
Relative Return	-3.2	-2.2	-1.4	-0.2
Universe Ranking	100	87	89	57

Universe asset allocations as at March 2019

Universe Data	Average Allocation %	Havering Allocation %	Average Return %	Havering Return %	Havering Percentile Ranking
Equities	55	37	7.3	8.3	48
Bonds	19	19	3.7	5.4	5
Alternatives	11	5	10.3	1.7	96
Property	9	8	6.1	6.4	37
Cash	3	2	0.8	0.7	no data
Diversified Growth	3	30	0.3	-1.4	87

PIRC Universe Summary:

- **Last 12 months:**
  - Over the last twelve months the average Local Authority pension fund returned 6.6%. This was below the Long Term average but ahead of inflation and actuarial assumptions,
  - Despite a year of global political uncertainty, a burgeoning trade war and no resolution to Brexit, investment returns though volatile, were positive.
  - Most Funds failed to outperformed their benchmark,
  - Asset returns were tightly grouped with bonds, property and equities returning 4%, 6% and 7% respectively.
- **Asset Allocation**
  - There were considerable portfolio movements as active investments were transferred to Pools.
- **Longer Term Performance**
  - Longer term performance has been excellent with the average funds delivering a positive return in 25 of the last 30 years with a performance of 8.4% p.a.
  - Equities have driven the strong long term performance
  - Alternatives performed strongly due in part to excellent returns from private equity,
- **Asset Allocation**
  - Equities remain the largest allocation within most funds' assets. Three quarters of this now invested overseas,
  - Alternatives have increased markedly over the decade. Private equity markets makes up half of this allocation with infrastructure increasing in recent years and expected to increase further.
  - Within the bond allocation, there has been a marked move from index based towards absolute return mandates.

PIRC Havering Summary:

- The Fund had a very different asset allocation from that of the average fund and the high commitment to diversified growth (the worst performing asset) had a large negative impact on the overall result.
- From a risk vs return perspective – the fund experienced an average volatility with an average return over the last ten years and over the last five years the volatility has reduced markedly which has brought with it a large reduction in the level of relative return.

Comments on Fund performance from the Fund's Investment Advisors

The overriding investment objective for the Fund is to support an affordable and stable level of contributions for the longer term. The current funding approach implies a target investment return of Gilts + 1.8% p.a. over the longer term from the Fund's assets, or c. 4% per annum in absolute terms based on yields as at 31 March 2016 (the previous valuation date).

Although returns over the 12 month period to 31 March 2019 have been behind this target (at c. 3%), the strategy has delivered returns of c. 8% per annum and c. 7% per annum over 3 years and 5 years respectively. Longer term returns are therefore substantially ahead of the long term (absolute) return deemed sufficient to support an affordable and stable level of contributions. A key challenge for the Fund is that the value placed on the liabilities has risen by more than the assets since the previous valuation. In particular, the liabilities have grown by more than 20% purely as a result of a fall in real gilt yields of c. 0.9% p.a. This has been a further, exceptional period for gilt yields which are now at historic low levels. Our long term outlook for index-linked gilts remains unchanged. We believe that valuations are inflated relative to history and expect that, over the long term; yields will rise leading to a fall in gilt (and consequently liability) values.

The aim of the investment strategy has been and remains to deliver sufficient and stable returns, but without introducing more investment risk than is necessary. The Fund's approach is to seek long term value and diversification across a range of asset classes and managers and the strategy incorporates a lower direct allocation to equity markets than other LGPS funds, with equity exposure being partly provided through multi-asset funds. Whilst, over the last 5 years, the Fund's equity and bond allocations have consistently outperformed those of other LGPS funds although, over the 12 months to 31 March 2019, performance from the multi-asset allocation was disappointing reflecting a particularly challenging period for more tactical asset managers. This is been the primary contributor to poor 12 month performance, dragging down performance over 3 and 5 year periods.

With markets acting in a less predictable manner and traditional equity and bond markets performing strongly in overall terms, the multi-asset mandates were biased towards areas of perceived value, favouring equity markets which have lagged the strongly performing US, contributing to weaker short-term performance. The protections within the mandates, aimed at preserving capital, have also disappointed with the mandates suffering negative returns during periods of equity market falls.

The changes in strategy which have been gradually implemented over this period have seen allocations to multi-asset mandates reduced, albeit whilst retaining the underlying equity exposure. Allocations to infrastructure, global property and private debt have been introduced to the Fund's longer term strategy, offering the prospect of long-term income generation. We have confidence that the level of returns required to support affordable and stable contributions can be (at least) supported by the current investment approach.

Responsible Investment and voting activity

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

The Fund also 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.

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, Legal and General Investment Management and the multi-asset mandates managed by Ruffer, GMO and Baillie Gifford (Diversified Growth Fund).

London CIV - 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 those investment managers.

Currently, c.63% of the Fund's assets is invested in funds accessed via LCIV.

Equity holdings held outside of the management of the LCIV are managed by GMO and held on a pooled basis so the Fund has no share holder rights in respect of voting.

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 2018, this was presented to the Pensions Committee on the 11 December 2018.

In summary, all of the Fund's managers, with the exception of GMO, are signatories to the UK Stewardship Code and have achieved Tier 1 ratings. All managers are signatories to the United Nations Principles for Responsible Investment (UNPRI). With the exception of GMO who have not yet been assessed, all of the Fund's managers have achieved strong assessment scores of A+ or A and have been ranked higher than their peer group across a range of areas considered by the UNPRI.

London CIV – Responsible Investment

The LCIV produced a Responsible Investment (RI) Policy in September 2018. Their policy focuses on engagement and accountability and a short summary and extract of the key beliefs and guiding principles is set out below.

The LCIV are committed to ensuring the investments are managed responsibly and have been operating in line with the proposed policy, as follows:

a) Support for the UK Stewardship Code; LCIV is a Tier 1 signatory to the Code.
b) LCIV is a signatory to the UNPRI
c) LCIV encourages investment managers to sign up to the UK Stewardship Code and the UNPRI where appropriate.
d) LCIV requests investment managers to vote in accordance with the LAPFF or explain their reasons for not doing so. This is monitored on a regular basis.

Key Beliefs

The key beliefs set out in the Policy are as follows:

a) We believe it is important that we accept and exercise the responsibilities of ownership of all the assets we manage.
b) We believe that communication and engagement are integral to responsible investment.
c) We believe that we should hold all our suppliers to account over how they exercise our ownership rights.
d) We accept that there can be a conflict between the ability to exercise ownership rights when working with other third parties; we will manage this through communication and engagement.
e) Sometimes assets will be sold over Environmental, Social and Governance (ESG) issues; however the LCIV or its partners will only do this on a case by case basis when considering all the facts.
f) We believe pre-determined divestment on a rules-based approach is contrary to Government guidance and does not form part of this RI policy.
g) We believe our voice for responsible ownership is loudest when we own an asset.

Guiding Principles

The Guiding Principles set out in the Policy are:

a) We should set out principles to which we aspire on subjects that all shareholders can agree:
    - Human Rights
    - Human Slavery
    - Rule of law
    - Environmental transparency
    - Equality
    - Corporate Governance
b) We will require all Investment managers to have an RI policy if the LCIV is to invest with them.
c) We will make clear to investment managers our consensus views on these matters and ask them to consider incorporating them into their RI policies.
d) We will ensure that all investment managers operate their RI policies effectively and hold them to account.
e) An Investment Managers inability to operate effectively their RI Policy will be a factor in determining if the LCIV continues to use a manager.
f) We will produce an Annual RI report for the London CIV.

Scheme Administration Report

OVERVIEW

Summary from the Local Pensions Partnership

LPP introduced the new target operating model (TOM) for the Pensions Administration business which went live at the beginning of April 2018, following months of planning and significant changes to the way LPP manage our services.

This new operating model created three main service hubs:

- Member Services
- Engagement; and
- Business Development.

In particular, the new operating model was designed to provide greater resilience and ultimately give employers and members an improved service and experience. As LPP only took on the administration contract for Havering in November 2017 it was agreed that Havering would not form part of the new operating model. However due to pre go live back log, delays in aligning systems and high staff turnover there were some initial challenges and dips in productivity.

Productivity has subsequently increased, by Q2 2018, remedial action was taken to address backlogs and contain the situation. The improvements from Q2 on are demonstrated in the table below:

	Q1 June 2018	Q2 September 2018	Q3 December 2018	Q4 March 2019	Annual
Top 12 case% against SLA	49.25%	89.85%	99.29%	99.01%	88.12%
Number of Complaints	1	1	0	1	3
Number of Compliments	0	0	0	1	1

The next phase of the service improvement programme will include enhancements to the member and employer experience through new technologies and digital solutions, improved team-learning; improved reporting; customer satisfaction surveys and embedding best practice.

In January 2019 the Contact Centre survey was launched and of those eligible to be surveyed and who agreed to take part, 92.46% indicated they were satisfied with our service, providing us with an average score of 4.67 out of 5. Havering calls currently go to the administration team and over the coming year we will be reviewing if these calls can migrate to the contact centre.

James Wilday
Acting Head of Client Delivery

Value for Money Statement

A comparison of the 2018 SF3 data supplied to MHCLG shows that the Havering Fund is ranked 8 out of the 32 London Boroughs for value for money in respect of the pension's administration costs.

We have seen a significant improvement in the number of cases meeting the key performance indicators since 2016/17 which is shown on pages 32-33 and we continue to work with LPP to improve the flow of information and processes to further enhance efficiencies and will be introducing a data improvement plan during 2019/20 which identifies areas for improvement.

Our data quality on common data standards is currently 99.06%. Data quality is fundamental to ensuring an accurate valuation of the Fund's liabilities.

Summary of Activities undertaken by the service during the year

As mentioned in the Overall Fund Management 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

LPP are also working on the Guaranteed Minimum Pension (GMP) reconciliation project which is an exercise to reconcile the records held by HMRC with the Havering pension records. During 2018/19 all queries were raised with HMRC via the portal. We are now awaiting responses to these queries in order to finalise the project and review any pension payments that have been highlighted as requiring further investigation.

LGPS Regulatory Update

Amendment regulations released taking effect 14 May 2018

As reported last year the Ministry of Housing and Communities and Local Government (MHCLG) released amendment regulations on 19 April 2018 to have effect from 14 May 2018. The main effect being the option for members with deferred benefits prior to 1 April 2014 being able to access their benefits albeit with reductions likely to apply from age 55. All affected scheme members were notified within the disclosure timeframe. An anomaly where members who had left prior to 1 April 1998 had the option to take the benefits either at 55 or normal pension age, the declared intention was to allow all members to claim their benefits at any point from 55 and this was rectified in the Miscellaneous regulations.

Miscellaneous regulations 2018

On 18 December 2018, MHCLG also laid The Local Government Pension Scheme (Miscellaneous Amendment) Regulations 2018 [2018/1366] before Parliament.

The key changes that impacted on increased communication with members are as follows:

- With effect from 17 April 2018, members who left before 1 April 1998 are allowed to elect to draw their deferred benefits at any point between age 55 and their Normal Retirement Date (NRD). The Government did intend to make the change effective from 14 May 2018, but do not see an issue with the effective date remaining as 17 April 2018.
- With effect from 17 April 2018, members who left before 1 April 1998 are no longer required to have left all local government employment should they wish to draw the deferred benefits between 55 and their NRD. The Government did intend to make the change effective from 17 April 2018,
- We must calculate the survivor pension to a surviving civil partner or to a survivor of a same-sex marriage as if the couple were in an opposite-sex marriage and the deceased member was male. The amendments have effect back to 5 December 2005 (for civil partners) and to 13 March 2014 (for same-sex marriages).

Due diligence (Pension liberation scams)

We are all aware of the risk of pension scams when dealing with transfer out requests. This is particularly around striking the right balance between protecting members/scheme and from obstructing legitimate transfer requests.

A Code of Good practise was published which sets out the recommended transfer-out due diligence process. This includes flowcharts and template letters.

On 22 June 2018 a revised code was published, key changes are as follows:

- Promotion of calling members as part of due diligence information collecting
- Expanding protection to include referring insistent customers to The Pensions Advisory Service (TPAS) for impartial guidance which will help them to better understand the risks
- Recent legal developments
- Addition of detailed guidance on Action Fraud reporting and encouraging providers and schemes to report potential scams
- Expanded template letters
- Example case studies

Our current due diligence process is modelled on the updated Code of Practise.

Additional Pensions Contributions (APC's)/Additional Regular Contributions (ARCs)

On 15 March 2019 the MHCLG issued new factors for Additional Regular Contributions and Additional Pension Contributions to take effect from 1 April 2019. This required LPP to contact any member who was purchasing any added pension and give them the choice to continue to purchase the pension at the increased cost or to cease payments and have the partial purchase to 31 March 2019.

Government Actuary Department (GAD) factors

A ministerial statement was issued on the 6th September 2018 that impacted transfer factors and the ALTAIR pensions system was updated to reflect these changes.

Key Uses of Technology

The Havering Altair hosted pension system successfully migrated to the LPP instance of Altair 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 regularly promoted to 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 Havering Pensions Projects and Contracts Manager sits on the panel in an advisory role.

There have been no new Independent Dispute Resolution Procedure (IDRP) cases and 3 general customer complaints during 2018/19.

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 - select Whistleblowing procedure.

KEY PERFORMANCE DATA

CIPFA released guidance for capturing Key Performance indicators during 2018/2019. Unfortunately, this was not issued in time to be able to adapt the reporting process to capture the suggested data for 2018/19. Steps will be put in place to be able to report key performance indicators in line with the guidance in 2019/20. The data below is in line with previous reports.

INDICATOR	**What is it an indicator of?**	**Actual 2018/19 %**	**Target 2018/19 %**	**Actual 2017/18 %**	**Actual 2016/17 %**
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	84.96	95	*Not Available	74.3
The percentage of early retirement estimates processed within 5 working days	To produce estimates for early retirements i.e. ill health, redundancies and voluntary retirements within 5 working days of request, normal retirement date or receipt of all relevant information. This indicator is particularly important to service clusters	81.77	90	*Not Available	82.2
The percentage of notification of deferred benefits within 4 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 4 working days of receipt of all relevant information.	86.17	90	*Not Available	43.4
The percentage of 'Transfers In' actuals processed within 4 working days.	The percentage of transfers in with the member's record updated with the transferred in information	88.68	95	*Not Available	28.0
The percentage of 'Transfers Out' actuals processed within 5 working days	The percentage of transfers out paid to the new pension provider	81.25	90	*Not Available	74.6

INDICATOR	What is it an indicator of?	Actual 2018/19 %	Target 2018/19 %	Actual 2017/18 %	Actual 2016/17 %
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	82.41	90	*Not Available	67.9
The percentage of joiners processed within 3 working days of information received	The percentage of joiners' records set up on the Pensions Administration System	95.76	95	*Not Available	89.6

During 2017/18 the pension's team were working at 5 FTE when they should be at 9.1 FTE, due to difficulty in recruiting experienced pensions administrators. During this time 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.

Targets were set in line with CIPFA and London centre of Excellence, cross councils benchmarking. They were reviewed by the Pension Fund Manager and Local Pensions Partnership as part of the Delegated Arrangement. The Pension Service Local Performance Indicators represent the main core of the administration team output but do not cover all the calculations and processes carried out.

The data used to report the performance indicators is supplied by LPP from their Case Management System (CMS). CMS is a bespoke workflow system acting as a comprehensive management information tool. It provides detailed analysis of all cases processed/outstanding on a daily basis.

The system builds in Havering's agreed SLA's and work is managed and allocated based on a day count basis from date received. The system monitors caseload volumes and performance against SLA's. It also allows LPP to track error/rework rates; ensuring quality is maintained throughout the administration function. It provides easily accessible and reportable information enabling monitoring, audit, performance management and annual review reporting capabilities.

The system allows LPP to track, case completion rates against agreed SLA's, cases completed early, elapsed times as well as produce data on why cases are pending, for example awaiting information from a third party or scheme employer.

The Havering pension team receives monthly reports and monitors the cases completed against the reported performance.

Havering will be introducing a data improvement plan during 2019/20 which will identify key work streams and priorities to help improve both the quality of data and the administration performance.

The indicators do not include record keeping and data maintenance tasks covered by LPP, which are required to correctly administer a member's benefit and also have a direct impact on the triennial valuation.

Annual Benefit Statements are required to be sent to active and deferred scheme members by 31st August each year. This was achieved successfully in 2018. The administering authority and LPP continue to promote the use of Member Self Service to reduce printing and postage costs of approximately £7,000.

Local Pensions Partnership took on the administration contract for Havering in November 2017 and due to back log, delays in aligning systems and high staff turnover there were some initial challenges and dips in productivity.

Productivity has subsequently increased, by Q2 2018, remedial action was taken to address backlogs and contain the situation. The improvements from Q2 on are demonstrated in the table below:

	Q1 June 2018	Q2 September 2018	Q3 December 2018	Q4 March 2019	Annual
	%	%	%	%	%
Top 12 case% against SLA	49.25	89.85	99.29	99.01	88.12

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

- 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
- Clearance of backlog work
- Regulatory changes

Over the past 5 years trends on the key activities within the administration team are detailed below.

Service Item	2014/15 Cases	2015/16 Cases	2016/17 Cases	2017/18 Cases	2018/19 Cases
Retirements processed	261	279	370	257	512
Early retirement estimates processed	725	827	872	*Not Available	543
Notification of Deferred Benefits	243	351	348	241	947
Transfers In Actuals processed	54	35	25	45	27
Transfers Out Actuals processed	31	29	59	55	40
Death notification written out	178	224	193	157	183
New LGPS joiners processed	1,173	1,004	1,009	1,093	1,792
Refunds	99	148	123	113	678
TV Out & Inter Fund Adjustment (IFA) Quote	75	98	77	*Not Available	164
TV In & IFA Quote	108	254	69	*Not Available	196
Total Cases per year	**2,947**	**3,249**	**3,145**	**1,961**	**5,082**

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.

LPP currently have 3 staff working on Havering administration with a ratio of 1 member of staff to 6572 fund members. The team completed a total of 7798 cases including contractual cases not reported above for the period 1st April 2018 to 31st March 2019 which is an average of 2599 cases per staff member.

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 2018/19. 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

Table 3 Unit costs per member	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**2018/19**
Investment Management Expenses					
Total Cost (£'000)	2,760	2,796	3,003	3,346	4,303
Total membership (nos)	17,487	18,119	18,514	19,193	19,734
Cost per member (£)	157.83	154.31	162.20	174.33	218.05
Administration					
Total Cost (£'000)	574	512	562	532	*653
Total membership (nos)	17,487	18,119	18,514	19,193	19,734
Cost per member (£)	32.82	28.26	30.36	27.72	33.09
Oversight and Governance Costs					
Total Cost (£'000)	Not available	355	360	426	419
Total membership (nos)	Not available	18,119	18,514	19,193	19,734
Cost per member (£)	Not available	19.59	19.44	22.20	21.23
Total cost per member	**190.66**	**202.16**	**212.00**	**224.25**	**272.37**

source: SF3 data as at 31 March 2018
*Excludes one off agency costs and GMP reconciliation costs of £148k during 2018/19.
Oversight & Governance not split until 2015/16, in line withCIPFA guidance

Confidentiality of Personal Data

LPP has developed a robust control framework to help ensure that all the requirements of the GDPR are met in a timely manner and which will also serve as a defence in the event of litigation. LPP became fully GDPR complaint ahead of the 25th of May 2018 deadline and provided all clients and employers with the relevant paperwork to aid their own compliance.
We also aim to adhere to a code of conduct which would bring the additional benefit of:

- improving transparency and accountability - enabling individuals to distinguish the organisations that meet the requirements of the law and they can trust with their personal data
- providing mitigation against enforcement action
- improving standards by establishing best practice
- investigate innovative solutions to high risk areas including data minimisation and pseudonymisation

One year on from GDPR and LPP are now in the process of expanding the GDPR compliance project by reviewing all policies created for GDPR and ensuring they are still fit for purpose. LPP ran a data protection awareness week at the end of January 2019 raising staff's general awareness of data protection as a whole, this was received well within the business and we highlighted processes and procedures that should be followed when handling personal data. LPP are in the process of expanding the data protection action plan which focuses on areas of high risk processes or procedures which can be adapted to ensure compliance with the regulations and to mitigate any future incidents. As part of the action plan LPP engaged an external supplier to conduct a cultural review of administration staff and how LPP process personal data.

Accuracy of Data

To ensure the accuracy of the data held, each year end the LPP Data Management Team reviews its systems and processes and implements improvements for the next end of year process. Every year the LPP raise a number of queries with our employers such as missing leavers, joiners, change of hours and pay queries. In most instances the queries are reducing year on year. LPP continue to identify errors and educate employers prior to the queries being created. LPP have also listened to employers and have improved the templates and literature sent to employers.

Other information

Fund Membership Data

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

	As at 31 March 2019	As at 31 March 2018	As at 31 March 2017	As at 31 March 2016	As at 31 March 2015
Contributors	6,717	6,562	6,217	6,526	6,484
Deferred pensioners	6,544	6,384	6,196	5,709	5,224
Pensioners and Dependants	6,473	6,247	6,101	5,884	5,779
	19,734	**18,193**	**18,514**	**18,119**	**17,487**

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

	As at 31 March 2019	As at 31 March 2018	As at 31 March 2017	As at 31 March 2016	As at 31 March 2015
Ill Health	7	3	6	11	15
Early Retirements	0	0	0	0	0

The age profile of members within five year bandings for the year ended 31 March 2019 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	5	**5**
10-14	0	0	0	6	**6**
15-19	45	2	0	29	**76**
20-24	181	60	0	7	**248**
25-29	326	280	0	0	**606**
30-34	475	474	0	1	**950**
35-39	680	572	0	3	**1,255**
40-44	852	714	3	2	**1,571**
45-49	1,083	1,130	6	15	**2,234**
50-54	1,244	1,462	10	27	**2,743**
55-59	1,043	1,172	225	23	**2,463**
60-64	609	611	810	51	**2,081**
65-69	154	59	1,316	84	**1,613**
70-74	23	8	1,272	109	**1,412**
75-79	1	0	780	145	**926**
80-84	0	0	566	164	**730**
85-89	1	0	324	156	**481**
90-94	0	0	183	90	**273**
95-99	0	0	36	16	**52**
100-104	0	0	3	3	**6**
105-109				1	**1**
TOTAL	**6,717**	**6,544**	**5,534**	**939**	**19,734**

Actuarial Report

London Borough of Havering Pension Fund ("the Fund")
Actuarial Statement for 2018/19

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 (updated in November 2018). 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

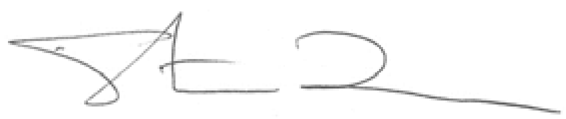
*Aged 45 at the 2016 valuation

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 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on liabilities. This has been offset by strong asset returns over the period such that the funding level is broadly unchanged since 31 March 2016.

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



Steven Law FFA
For and on behalf of Hymans Robertson LLP
5 April 2019

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 funding level was around 67% as at 31 March 2019.

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.

GOVERNMENT ACTUARY DEPARTMENT (GAD) – SECTION 13 PUBLIC SERVICES PENSIONS ACT 2013

GAD was appointed by the Ministry of Housing, Communities and Local Government (MHCLG) to report under section 13 of the Public Service Pensions Act 2013 in connection with the actuarial valuations of the 91 funds in the Local Government Pension Scheme in England and Wales ('LGPS' or 'the Scheme'), based on the results the 2016 Valuation.

Section 13 (4) requires GAD to report on whether four main aims had been achieved, using a variety of measures within the following categories:

a. **Compliance** – to confirm the actuarial valuations has been carried out in accordance with the scheme regulations.
b. **Consistency** – to confirm the actuarial valuation has been carried out in a way that is not inconsistent with other valuations.
c. **Solvency** – to confirm employer contributions is set at an appropriate level to ensure the solvency of the pension fund, and
d. **Long Term cost efficiency** – to confirm employer contributions are set at a level to ensure, over the long term, that they meet current benefit accruals and include an adjustment to the rate for any surplus or deficit.

Havering received an amber flag against the insolvency measure (item c above). This measure highlights possible risks to a fund as a result of assets being significantly lower than liabilities, where liabilities are those estimated on the SAB standard basis. A fund in deficit may need to pay additional contributions in order to meet the liabilities that have already been accrued.

Our actuary has carried out extensive testing of our funding plans and is comfortable our investment and contribution strategies are robust and fit for purpose.

An amber flag is a potential issue that has been recognised but in isolation would not contribute to a recommendation for remedial action.

Governance

GOVERNANCE ARRANGEMENTS

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 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 membership of the Pensions Committee reflects the political balance of the Council and following the Local Elections held in May 2018 the structure of the Committee, at the time of publication of this report, are as follows:

Conservative Group:
Cllr John Crowder (Chair)
Cllr Viddy Persuad (From March 2019)
Cllr Matt Sutton

Residents Group
Cllr Stephanie Nunn

North Havering Residents' Group
Cllr Martin Goode (Vice Chair March 2019)

Upminster & Cranham Residents' Group
Councillor Ron Ower

Labour Group
Vacant*

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

From March 2019 Cllr Viddy Persaud replaced Cllr Melvin Wallace

*Due to a Councillor changing political parties an adjustment was made to the political allocation of representatives who sit on the Pensions Committee from December 2018. This resulted in the Independent Residents Group losing one seat (Cllr David Durant) and the Labour Group gaining one seat (currently vacant).

Cllr John Crowder
Chair

Conservative Group

Cllr Ron Ower

Upminster & Cranham Residents' Group

Cllr Matt Sutton

Conservative Group

Cllr Martin Goode

North Havering Residents' Group

Cllr Stephanie Nunn

Residents' Group

Cllr Viddy Persaud

Conservative Group (From March 2019)

The terms of reference for the Committee are:

- To consider and agree the ISS 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.

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.

Employer representatives:
Virpi Raivio – St Edwards Academy (left August 18)
Denise Broom – Life Academy Trust (from December 18)
David Holmes – Havering College of Further and Higher Education

Scheme Member representatives:
Mrs Anne Giles
Mr Mark Holder

The Local Pension Board produces a separate annual report and this available on the Authority's website by selecting the link here http://www.yourpension.org.uk - select Employer Guides

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 2018 to reflect changes to membership of the Committee.

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.

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 2018/19 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 encourages use of 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 Manager and/or 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 2018/19

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
3 July 2018	Peter Worth – Understanding the role of the Pensions Committee	Town Hall	KSF 1	Paid for by OneSource – to be recharged to Havering	Cllr John Crowder (Chair) Cllr Melvin Wallace (Vice-Chair) Cllr Roger Ramsey Cllr Martin Goode (also Chair Audit cttee) Cllr Ron Ower Cllr Matt Sutton (also Vice-Chair Audit cttee)
24 July 2018	Officer - New Councillor Induction • plus Hymans "A brief Guide to the LGPS'	Town Hall	ALL	Officer Time	Cllr Ray Morgon Cllr Ron Ower
24 July 2018	Officer - New Councillor Induction – • distribution of slides only	Town Hall	ALL	Officer Time	Cllr Matt Sutton Cllr Martin Goode
24 July 2018	Officers - Pension Fund Accounts 17/18 Briefing covered: • Overview of the Pension Fund Accounts	Town Hall – prior to Pensions Committee meeting	KSF 2	Officer Time	Cllr John Crowder (chair) Cllr Melvin Wallace (vice- chair) Cllr Martin Goode Cllr Ron Ower Cllr Ray Morgon Cllr Jan Sargent Cllr Gerry O'Sullivan Cllr David Durrant Cllr Viddy Persuad (part)

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
20 August 2018	Hymans – Direct Corporate Lending, covered: • What is Direct corporate Lending • Why we are investing in this asset class • How to get exposure bFinance - covered the manager selection process	Town Hall – Prior to Special Pensions Committee meeting	KSF 3 KSF 5	Part of contract	Cllr John Crowder (chair) Cllr Melvin Wallace (vice-chair) Andy Hampshire (GMB union-employee rep)
15 November 2018	SPS Conferences Local Authority - Pension Fund Investment Strategies: • Topical Issues • Income from Property & Infrastructure- planning for cash flow negativity • Management of Assets – improving cost transparency • LGPS Perspectives -current issues	Le Meridien Hotel, Picadilly, W1	KSF 5	Free	Cllr Stephanie Nunn
11 December 2018	Officer - New Councillor Induction	Library	ALL	Officer Time	Cllr David Durant
11 December 2018	Hymans-ESG :Introductory Training: • Introduction • Regulation • Application and Action • Next steps: establishing a set of beliefs	Town Hall – Prior to Pensions Committee meeting	KSF 1 KSF 4 KSF 5	£1,500	Cllr John Crowder (chair) Cllr Melvin Wallace (vice- chair) Cllr Ron Ower Cllr Stephanie Nunn Cllr David Durrant Cllr Matt Sutton (part)

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 2018/19 and the report coverage and attendance at those meetings are shown in the following table:

DATE	TOPIC	ATTENDED BY
24 July 2018	• Noted Pension Fund Performance Monitoring for the quarter ending 31 March 2018, received presentations from Property Manager (UBS) • Noted Pension Fund Accounts for the year ending 31 March 2018. • Agreed the Pension Fund Annual Report for the year ending 31 March 2018. • Agreed the Business Plan/Annual Report on the work of the Pensions Committee 2016/17 • Noted Local Pension Board Annual Report for the year Ended 31 March 2018 • Approved the proposed Work Programme for the year to March 2019.	Cllr John Crowder (chair) Cllr Melvin Wallace(vice chair) Cllr Matt Sutton Cllr Ray Morgon (sub for Cllr Nunn) Cllr Ron Ower Cllr Martin Goode
20 August 2018 (Special meeting)	• Interview/Appointment of Investment Manager – Private Debt Interview/Appointment of Passive Equity Managers	Cllr John Crowder (chair) Cllr Melvin Wallace(vice chair) Cllr Matt Sutton
18 September 2018	• Noted Pension Fund Performance Monitoring for the quarter ending 30 June 2018, received presentations from passive equity manager (LGIM) • Noted Havering Colleges proposed Merger • Noted Guaranteed Minimum Pension (GMP) Reconciliation work	Cllr John Crowder (chair) Cllr Melvin Wallace(vice chair) Cllr Stephanie Nunn Cllr Martin Goode
13 November 2018	• Noted the views of officers on the performance of the Fund's Custodian for the period to September 2018. • Noted the views of officers on the performance of the Fund's Actuary for the period to September 2018. • Noted the views of officers on the performance of the Fund's Investment Advisor for the period to September 2018. • Considered and agreed changes as necessary to the Governance Compliance Statement • Agreed updates to Funding Strategy Statement • Agreed Communications Strategy for 2018 to 2021 • Noted Review of Risk Register • Noted results of the Whistle Blowing Annual review	Cllr John Crowder (chair) Cllr Melvin Wallace(vice chair) Cllr Matt Sutton Cllr Stephanie Nunn Cllr Martin Goode Cllr Ron Ower Andy Hampshire (GMB union Rep)
11 December 2018	• Noted the Pension Fund Performance Monitoring for the quarter ending 30 September 2018, received presentations from the Multi Asset Manager GMO. • Noted Local Government Pension Scheme charging policy for Havering • Noted the results of the Public Service Pensions Act 2013 – Section 13 GAD report • Noted the review of the Fund manager voting and engagement activity, including the	Cllr John Crowder (chair) Cllr Melvin Wallace(vice chair) Cllr Matt Sutton Cllr Stephanie Nunn Cllr Martin Goode Cllr Ron Ower Cllr David Durant

DATE	TOPIC	ATTENDED BY
	responsible investment policy for the London CIV • Agreed the next steps in respect of developing future reviews of responsible investment monitoring, including development of a set of investment beliefs.	
21 February 2019 (Special meeting)	• Interview/Assessment of Investment Management Consultancy Services for Stage 2 Evaluation	Cllr John Crowder (chair) Cllr Viddy Persaud Cllr Stephanie Nunn Cllr Martin Goode Cllr Ron Ower Cllr David Durant John Giles (UNISON representative)
19 March 2019	• Noted the Pension Fund Performance Monitoring for the quarter ending 31 December 2018, received presentations from Ruffer Absolute Return Fund and the London CIV for both the Baillie Gifford Global Alpha Fund and the Diversified Growth Fund. • Noted the issue of Local Government Pension Scheme consultations for Asset pooling & Fair Deal, including discussions on items for inclusion in response to Asset pooling • Noted the review being undertaken by The Pensions Regulator. • Considered and agreed the next steps to finalise a formal statement of investment beliefs	Cllr Martin Goode (chair) Cllr Roger Ramsey (sub for Cllr Crowder) Cllr Stephanie Nunn Cllr Ron Ower Cllr Viddy Persaud

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 2018/19 and the plan of work for the following year (2019/2020). 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 2018/19 there were no conflicts of interests declared.

Fund Account, Net Asset Statement

Pension Fund Account for the year ended 31March 2019

2017/18 £000		Notes	2018/19 £000
	Dealings with members, employers and others directly involved in the fund		
41,649	Contributions receivable	7	43,725
2,654	Transfers in from other pension funds	8	1,633
44,303			45,358
(36,486)	Benefits	9	(37,834)
(3,808)	Payments to and on account of leavers	10	(3,295)
(40,294)			(41,129)
4,009	**Net additions (withdrawals) from dealings with members**		**4,229**
(4,304)	Management expenses	11	(5,523)
(295)	Net additions/(withdrawals) including fund management expenses		**(1,294)**
	Returns on investments		
9,331	Investment income	12	10,835
-	Taxes on Income	13	(4)
26,693	Profit and losses on disposal of investments and changes in the market value of investments	14a	16,746
36,024	**Net returns on investments**		**27,577**
35,729	**Net increase (decrease) in the net assets available for benefits during the year**		**26,283**
671,379	Opening net assets of the Fund at start of year		707,108
707,108	**Closing net assets of the Fund at end of year**		**733,391**

Net Asset Statement for the year ended 31 March 2019

2017/18 £000		Notes	2018/19 £000
-	Long Term Investments	14	150
689,295	Investment Assets	14	719,286
-	Investment Liabilities	14	-
689,295	**Total net investments**		**719,436**
18,141	Current Assets	21	14,334
(328)	Current Liabilities	22	(379)
707,108	**Net assets of the Fund available to fund benefits at end of the reporting period**		**733,391**

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 2018/19 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 2018/19 five new employers joined the fund and two ceased.

There are 49 employer organisations with active members within the Havering Pension Fund including the Authority. The membership profile is detailed below.

31 March 2018		31 March 2019
46	**Number of employers with active members**	**49**
	Number of employees in scheme	
4,746	Havering	4,686
1,745	Scheduled bodies	1,961
71	Admitted bodies	70
6,562	**Total**	**6,717**
	Number of pensioners and dependants	
5,769	Havering	5,931
462	Scheduled bodies	522
16	Admitted bodies	20
6,247	**Total**	**6,473**
	Deferred pensioners	
5,221	Havering	5,315
1,115	Scheduled bodies	1,183
48	Admitted bodies	46
6,384	**Total**	**6,544**
19,193	**Total number of members in pension scheme**	**19,734**

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 2019. 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.

A secondary contribution rate (previously known as deficit amount or past service adjustment) may also be charged. This rate is either paid as a monetary value or as an additional percentage 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 2018/19 financial year and its position at year end as at 31 March 2019. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting* in *the United Kingdom* 2018/19 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2018/19.

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 nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administrating authorities the option to disclose this information in the net asset statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The pension fund has opted to disclose this information in Note 20.

The accounts have been prepared on a going concern basis.

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.

Additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event rose. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

(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 in accordance with the terms of the transfer agreement. The date set for the transfer of assets and liabilities is the date it becomes recognised in the fund account.

(c) Investment Income

i) Interest Income

Interest income is recognised in the Fund as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

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 due but unpaid are disclosed in the Net Assets Statement as current liabilities, providing the payment has been approved.

(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 Fund discloses its pension fund management in accordance with the CIPFA *Accounting for Local Government Pension Scheme Management Expenses (2016).* All items of expenditure are charged to the fund on an accruals basis as follows

Administrative Expenses

All staff costs of the pension's administration team are recharged to the Fund. Associated management, accommodation and other overheads are apportioned to the Fund in accordance Council policy and charged as expenses to the Fund.

Oversight and Governance Costs

All oversight and governance expenses are recharged 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

Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are shown separately in Note 11a and grossed up to increase the change in value of investments.

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

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

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

Net Assets Statement

(g) Financial Assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of assets are recognised by the Fund.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the code and IFRS13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).*

(h) Foreign Currency Transactions

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

(i) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

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

A financial liability is recognised in the net asset statement on the date the Fund becomes party to the liability. The Fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised by the fund account as part of the change in value of investments.

(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 International Accounting standards (IAS) 19 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. 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.

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 reported amounts. Estimates and assumptions take account historical experience, current trends and future expectations, however actual outcomes could be different from the assumptions and estimates made.

The items in the net asset statement for which there is significant risk of material adjustment in the forthcoming 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 Fund's 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 10% • 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%	129 16 105

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

2017/18 £000		2018/19 £000
	Employees' contributions	
	Normal:	
5,292	Havering	5,482
1,533	Scheduled Bodies	1,641
92	Admitted Bodies	83
	Additional contributions:	
19	Havering	13
4	Scheduled bodies	-
6,940	**Total Employees' Contribution**	**7,219**
	Employers' contributions	
	Normal:	
12,608	Havering	12,930
6,073	Scheduled bodies	6,494
370	Admitted bodies	346
	Deficit funding:	
14,303	*****Havering	16,220
	Augmentation	
715	Havering	324
633	Scheduled bodies	192
7	Admitted bodies	-
34,709	**Total Employers' Contributions**	**36,506**
41,649	**Total Contributions Receivable**	**43,725**

*The £16.22m deficit funding in 2018/19 reflects additional contributions made by the Authority to the Pension Fund. It consists of £11.15m secondary contributions and £5.07m in voluntary planned contributions.

By authority

2017/18 £000		2018/19 £000
32,937	Havering	34,969
8,243	Scheduled bodies	8,327
458	Admitted Bodies	429
41,649	Total Contributions Receivable	**43,725**

8. Transfers in from Other Pension Funds

2017/18 £000		2018/19 £000
2,654	Individual transfers	1,633
2,654	Transfers In from Other Pension Funds	**1,633**

9. Benefits Payable

By category

2017/18 £000		2018/19 £000
	Pensions	
28,306	Havering	29,702
1,169	Scheduled Bodies	1,222
637	Admitted Bodies	648
30,112	**Pension Total**	**31,572**
	Commutation and Lump Sum Retirements	
4,328	Havering	4,823
864	Scheduled Bodies	501
247	Admitted Bodies	250
5,439	**Commutation and Lump Sum Retirements Total**	**5,574**
	Lump Sum Death Benefits	
831	Havering	477
104	Scheduled Bodies	165
-	Admitted bodies	46
935	**Lump Sum Death Benefits Total**	**688**
36,486	**Total Benefits Payable**	**37,834**

By authority

2017/18 £000		2018/19 £000
33,465	Havering	35,002
2,137	Scheduled bodies	1,888
884	Admitted Bodies	944
36,486	Total Benefits Payable	**37,834**

10. Payments To and On Account of Leavers

2017/18 £000		2018/19 £000
46	Refunds to members leaving service	120
3,762	Individual transfers	3,175
3,808	**Payments to and on Account of Leavers**	**3,295**

At the year end there are potential liabilities of a further £0.56m in respect of individuals transferring out of the Pension Fund upon whom the Fund is awaiting final decisions (See Note 26).

11. Management Expenses

2017/18 £000		2018/19 £000
532	Administrative Costs	801
3,346	Investment Management Expenses	4,303
403	Oversight and Governance Costs	399
18	Oversight and Governance Costs - External Audit costs	16
5	Local Pension Board	4
4,304	**Management Expenses**	**5,523**

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 £0.076m (2017/18 £0.096m) in respect of performance-related fees paid/payable to the fund's investment managers. It also includes £0.358m in respect of transaction costs (2017/18 £0.073m).

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

2017/18 £000		2018/19 £000
3,188	Management Fees	3,895
16	Performance measurement fees	27
20	Custody fees	23
122	Transaction costs	358
3,346	**Investment Management Expenses**	**4,303**

12. Investment Income

2017/18 £000		2018/19 £000
3,577	Pooled Investments – unit trusts and other managed funds	4,841
3,260	Income from Bonds*	3,514
2,238	Pooled Property Investments	1,960
140	Income from derivatives (Foreign Exchange Gains/(losses))	289
113	Interest on Cash Deposits	149
3	Other Income	82
9,340	**Investment Income**	**10,835**

* Income includes Index linked Interest of £0.126m (2017/18 £0.161m)

13. Taxes on Income

2017/18 £000		2018/19 £000
-	Withholding Tax	(4)
-	**Taxes on Income**	**(4)**

14. Analysis of Investments

2017/18 £000		2018/19 £000
	Investment Assets	
-	**Long Term Investments**	150
-		**150**
	Bonds - Fixed Interest Securities	
15,322	UK Public Sector	13,901
68,806	UK Private (Corporate)	76,084
84,128		**89,985**
	Bond - Index-Linked Securities	
30,857	UK Public Sector	30,150
2,213	UK Private (Corporate)	2,936
2,053	Overseas Public Sector	-
35,123		**33,086**
	Equities	
-	UK Quoted	96
-		**96**
	Derivative Contracts	
18	Forward Currency Contracts	-
18		**-**
	Pooled Investment	
524,615	UK Unit trusts - Quoted	493,040
152	UK Unit Trusts - Unquoted	-
-	Overseas Other Unit Trusts - Unquoted	36,097
40,796	UK Pooled property investments – Unquoted	42,109
-	Overseas Pooled Property Investments - Unquoted	13,046
565,563		**584,292**
3,215	Cash deposits Managers	10,505
68	Amounts receivable for sales	-
1,172	Investment income due	1,318
8	Outstanding Dividend and Recoverable Withholding Tax	4
4,463		**11,827**
689,295	**Total Investment Assets**	**719,436**
	Investment Liabilities	
-	**Total Investment Liabilities**	**-**
689,295	**Total Net Investments**	**719,436**

14a. Reconciliation of movements in investments and derivatives

	Market Value at 31 March 2018 £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 2019 £000
Equities	-	84	-	(10)	22	96
Fixed Interest Securities	84,128	25,991	(21,565)	1,431	-	89,985
Index-linked Securities	35,123	8,412	(12,290)	1,841	-	33,086
Pooled Investment Vehicles	565,563	79,680	(74,278)	13,499	(22)	584,442
Derivatives – forward currency contracts	18	86,021	(86,021)	(18)	-	-
Cash Deposits (fund managers)	3,215	-	-	3	7,287	10,505
	688,047	**200,188**	**(194,154)**	**16,746**	**7,287**	**718,114**
Other Investment Balances	1,248	-	-	-	74	1,322
	689,295	**200,188**	**(194,154)**	**16,746**	**7,361**	**719,436**

	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
Equities	78,972	34,803	(27,813)	(385)	(1,449)	84,128
Index-linked Securities	36,940	17,293	(20,533)	(26)	1,449	35,123
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**

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 £0.358m (2017/18 £0.122m). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles.

The investments analysed by fund managers and the market value of assets under their management as at 31 March 2019 were as follows:

14b. Investments analysed by Fund Manager

Value 31 March 2018 £000	%	Manager	Mandate	Value 31 March 2018 £000	%
Investments managed by London CIV asset pool:					
-	-	London CIV	Equities unquoted	150	0.02
-	-	Ruffer	Pooled Absolute Return Fund	94,692	13.16
-	-	Baillie Gifford	Pooled Global Alpha Growth Fund	138,095	19.20
-	-	Baillie Gifford	Pooled Diversified Growth Fund	87,740	12.20
309,837	44.95	London CIV	Pooled Global Equities	-	-
309,837	**44.95**			**320,677**	**44.58**
PLUS Life Fund Investments aligned with London CIV asset pool:					
98,879	14.34	Legal & General Investment Management	Passive UK/Global Equities/ Emerging Markets	132,172	18.37
409,716	**59.29**	**London CIV Total**		**452,849**	**62.95**
Investments managed outside of the London CIV asset pool:					
131,077	19.02	Royal London	Investment Grade Bonds	135,062	18.77
40,796	5.92	UBS	Pooled Property	43,541	6.05
108,696	15.77	GMO	Multi Asset	34,450	4.79
-	-	CBRE	Global Pooled Property	13,422	1.87
-	-	Stafford Capital	Overseas Pooled Infrastructure	7,791	1.08
-	-	JP Morgan	Overseas Pooled Infrastructure	29,241	4.06
-	-	Churchill	Overseas pooled Private Debt	3,072	0.43
10	0.00	Other		8	0.00
280,579	**40.71**	**Managed outside asset pool Total**		**266,587**	**37.05**
689,295	**100.00**	**Total Fund**		**719,436**	**100.00**

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

Market Value 31 March 2018 £000	% of Total Fund	Security	Market Value 31 March 2019 £000	% of Total Fund %
126,973	18	London CIV Global Alpha Fund	138,095	19.20
95,216	13	London CIV Ruffer Absolute Return Fund	94,692	13.16
87,498	12	London CIV Diversified Growth Fund	87,740	12.20
49,393	7	LGIM All World Equity Index	54,689	7.60
49,486	7	LGIM FTSE RAFI AW 3000 Index	52,717	7.33
40,796	6	UBS Property	42,109	5.85
108,696	15	GMO Global Real Return (UCITS) Fund	-	-

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 2019, the value of quoted equities on loan was £97.6m (£75.7m 31 March 2018). 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. A breakdown of forward contracts held by the Fund as at 31 March 2019 is given below:

Settlement	Currency Bought	Local Value 000	Currency Sold	Local Value 000	Asset Value (Unrealised Gain) £000	Liability Value (Unrealised Loss) £000
Gross open forward currency contracts at 31 March 2019						
Net forward currency contracts at 31 March 2019					**-**	**-**
Prior year comparative						
Gross open forward currency contracts at 31 March 2018					**18**	**-**
Net forward currency contracts at 31 March 2018					**18**	**-**

16. Fair Value Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market based information. There has been no change in the valuation techniques used during the year.

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
UK 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
Overseas Pooled instruments property funds	Level 3	The valuation function is performed by the Alternative Investment Fund Manager (AIFM) in accordance with the AIFMD	A Pricing Committee, composed of senior members of the AIFM, is in place, who meet quarterly and is responsible for overseeing proposed adjustments to the value of investments	Valuations could be affected by significant differences in rental value and rental growth. There may be a timing difference between the date of the last reported underlying property valuation and the date of the Funds financial statements, during which the underlying property valuation may have increased or decreased by a significant amount

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 2019.

	Assessed valuation range (+/-) %	Value at 31 March 2019 £000	Value on increase £000	Value on decrease £000
Pooled Investments – Property Funds	3.40	55,155	57,030	53,280

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.

Level 1

Where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Comprise quoted equities; quoted fixed securities, quoted index linked securities and unit trusts.

Level 2

Where quoted market prices are not available or where valuation techniques are used to determine fair value based on observable data.

Level 3

Where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

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 2019	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	616,207	36,247	55,155	707,609
Loans and receivables	26,161	-	-	26,161
Total Financial Assets	**642,368**	**36,247**	**55,155**	**733,770**
Financial Liabilities				
Financial liabilities at amortised cost	(379)	-	-	(379)
Total Financial Liabilities	**(378)**	**-**	**-**	**(379)**
Net Financial Assets	**641,989**	**36,247**	**55,155**	**77,391**

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**

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

16b Reconciliation of Fair Value Measurement within Level 3

	Market Value 31 March 2018	Transfer In/Out of Level 3	Purchases	Sales	Unrealised gains/losses	Realised gains/losses	Market Value 31 March 2019
	£000	£000	£000	£000	£000	£000	£000
Property Funds	40,796	-	13,301	(18)	1,076	-	55,155
Total	**40,796**	**-**	**13,301**	**(18)**	**1,076**	**-**	**55,155**

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 2018				31 March 2019		
Fair value through profit and loss £000	Assets at amortised cost £000	Liabilities at amortised cost £000		Fair value through profit and loss £000	Assets at amortised cost £000	Liabilities at amortised cost £000
			Financial Assets			
-	-	-	Long Term Investments	150	-	-
-	-	-	Equities	96	-	-
84,128	-	-	Bonds - Fixed Interest Securities	89.,985	-	-
35,123	-	-	Bonds - Index linked securities	33,086	-	-
18	-	-	Derivative contracts	-	-	-
524,767	-	-	Pooled investment Vehicles	529,136	-	-
40,796	-	-	Property	55,155	-	-
	3,215	-	Cash	-	10,505	-
	1,248	-	Other Investment Balances	-	1,322	-
	18,141	-	Debtors	-	14,334	-
684,832	**22,604**	**-**	**Financial Assets Total**	**707,609**	**26,161**	**-**
			Financial Liabilities			
-	-	-	Derivative contracts			
-	-	-	Other Investment Balances			
-	-	(328)	Creditors	-	-	(379)
-	**-**	**(328)**	**Financial Liabilities Total**	**-**	**-**	**(379)**
684,832	**22,604**	**(328)**	**Grand total**	**707,610**	**26,161**	**(379)**
707,108				**733,391**		

(b) Net Gains and Losses on Financial Instruments

2017/18 £000		2018/19 £000
	Financial assets	
26,693	Fair value through profit and loss	16,746
	Financial liabilities	**-**
26,693	**Total**	**16,746**

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 investing return.

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 pension fund 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 Pensions & Investments Research Consultants (PIRC), it has been determined that the following movements in market price risk are reasonably possible for the 2018/19 reporting period:

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 also shown below):

Asset Type	Value as at 31 March 2019 £000	Potential market movements %	Value on Increase £000	Value on Decrease £000
Equities	96	10.10	106	86
Total Bonds	123,071	8.90	134,023	112,067
Global Pooled inc.UK	529,287	6.10	561,574	497,001
Property	55,155	3.40	57,030	53,280
Cash	10,505	0.50	10,558	10,453
Total	**718,114**		**763,291**	**672,887**

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**

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 2019 and 31 March 2018 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 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 2019 £000	Potential movement on 1% change in interest rates £000	Value on increase £000	Value on Decrease £000
Bond Securities	123,071	1,231	124,301	121,839
Cash and Cash Equivalents	10,505	105	10,610	10,400
Cash Balances	13,698	137	13,836	13,562
Total Change in Asset Value	**147,274**	**1,473**	**148,747**	**145,801**

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**

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 any cash balances and investment assets not denominated in UK sterling.

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's Pensions & Investments Research Consultants (PIRC), it has been determined that a likely volatility associated with foreign exchange rate movements is 8.9% over a rolling 36 month period.

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

A 8.9% 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 2019 £000	Potential Market movement at 8.90% £000	Value on increase £000	Value on Decrease £000
Overseas Pooled	49,143	4,374	53,517	44,769
Overseas Cash	770	69	839	701
Total change in assets available to pay benefits	**49,913**	**4,443**	**54,356**	**45,470**

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**

(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 Pension Fund therefore takes steps to ensure that it always has adequate cash resources to meet its commitments. The Fund's cash holding under it treasury management arrangements as at 31 March 2019 was £13.69m (31 March 2018 £17.66m). The Pension Fund has immediate access to its cash holdings that are invested by the Authority and periodic cash flow statements 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 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 2019 the value of liquid assets was £642m, which represented 88% 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 2018/19

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 (updated in November 2018). 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 2016

Since the last formal valuation, real bonds yields have fallen placing a higher value on the liabilities. This has been offset by strong asset returns over the period such that the funding level is broadly unchanged since 31 March 2016.

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

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, but 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 benefits on this basis, the actuary has updated the actuarial assumption (set out below) from those used for funding purposes (see Note 19). The actuary has also valued ill health and death benefits in line with IAS19.

31 March 2018 £m	Year Ended	31 March 2019 £m
1,226	Present Value of Promised Retirement Benefits	*1,344
707	Fair Value of Scheme assets (bid value)	733
519	**Net Liability**	**611**

* Incorporates an allowance for the potential increase in liabilities arising from the McCloud judgement and GMP indexation

The promised retirement benefits at 31 March 2019 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 2019 and 31 March 2018. It is estimated that the impact of the change in financial assumptions to 31 March 2019 is to increase the actuarial present value by £71m. 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 2019 % p.a.	31 March 2018 % p.a.
Pension Increase Rate	2.5	2.4
Salary Increase Rate	2.8	2.7
Discount Rate	2.4	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 the previous IAS26 disclosure for the Fund.

Commutation assumption

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

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 2019	Approximate increase to liabilities %	Approximate monetary amount £m
0.5% p.a. increase in the Pension Increase Rate	8	105
0.5% p.a. increase in the Salary Increase Rate	1	16
0.5% p.a. decrease in the Real Discount Rate	10	129

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 2019 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

2017/18 £000		2018/19 £000
	Debtors:	
294	Contributions due from employers	372
80	Contributions due from employees	100
104	Pension Fund Bank Account Balances	211
29	Sundry Debtors	26
17,634	Cash deposit with LB Havering	13,625
18,141	**Current Assets**	**14,334**

2017/18 £000	Analysis of Debtors	2018/19 £000
294	Public corporation and trading funds	-
80	Other entities and individuals	-
374	**Total Debtors**	**-**

22. Current Liabilities

2017/18 £000		2018/19 £000
	Creditors:	
(84)	Unpaid Benefits	(120)
(164)	Sundry Creditors	(122)
(80)	Holding Accounts	(137)
(328)		**(379)**

2017/18 £000	Analysis of Creditors	2018/19 £000
(328)	Other entities and individuals	-
(328)	**Total**	**-**

23. Additional Voluntary Contributions

Market Value 2017/18 £000	AVC Provider	Market Value 2018/19 £000
810	Prudential	788
167	Standard Life	134

Some employees made additional voluntary contributions (AVC's) of £35,004 (2017/18 £47,519) 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 2018/19 were £32,604 to the Prudential (2017/18 £40,744) and £2,400 (2017/18 £6,775) 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.

2017/18 £000		2018/19 £000
1,380	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 2018/19, £0.710m was paid to the Authority for the cost of administrating the Fund (2017/18 £0.450m).

The Authority is also the largest employer in the Fund and in 2018/19 contributed £29.150m (2017/18 £26.911m) 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 2019 cash holdings totalled £13.7m (2017/18 £17.7m), earning interest over the year of £0.148m (2017/18 0.113m).

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 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 3.9.4.4 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

Outstanding capital commitments (investments) as at 31 March 2019 were £91.35m. These commitments relate to outstanding capital call payments due on unquoted limited partnership funds held in Private Debt and Infrastructure parts of the portfolio.

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 £0.56m 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.

Two admitted bodies in the Havering Pension Fund hold insurance bonds or guarantees in place to guard against the possibility of being unable to meet their pension obligations. These bonds total £1.14m and are drawn down in favour of the Pension Fund. Payment will only be triggered in the event of employer default.

Two admitted bodies, which are subject to pending legal agreements, will hold bonds or guarantees totalling £0.16m.

Asset Pools

In 2015 the Department of Housing, Communities and Local Government (as it then was) issued LGPS: Investment Reform Criteria and Guidance which set out how the government expected funds to establish asset pooling arrangements. The objective was to deliver:

- benefits of scale
- strong governance and decision making
- reduced costs and excellent value for money, and
- an improved capacity and capability to invest in infrastructure.

This has led to the creation of eight asset pools which have significantly changed the previous approach to investing, although it should be stressed that the responsibility for determining asset allocations and the investment strategy remains the Havering Pension Fund.

The Havering Pension Fund's asset pool is the London CIV (LCIV).

The LCIV is a Collective Investment Vehicle for London Local Authorities (LLA) Local Government Pension Scheme (LGPS) funds. It is a Financial Conduct Authority (FCA) regulated firm and its purpose is to be the LGPS pool for London to enable the London Local Authorities to achieve their pooling requirements. They work in partnership with the London Local Authorities in order to do so.

The LCIV was established in 2015 as a voluntary collaborative venture by the London Local Authorities to pool/invest the assets of the London LGPS. In line with Central Governments vision to reduce investment costs but maintain performance levels it has been a mandatory requirement to pool assets since 2016. It is the Fund's intention to invest its assets through the LCIV pool. As at 31 March 2019 the Fund has 44% of its assets fully pooled with LCIV and a further 18% of its assets passively managed under advisory/execution mandates by the LCIV.

Those assets held with the LCIV are now manged by them but report performance to the Committee periodically

The Fund will continue to assess the products available on the LCIV platform for their suitability to meet the Funds investment strategy objectives.

For a breakdown of assets managed directly by the pool and investment assets managed outside of the pool please refer to the Investment Policy and Performance section of the report under Asset Allocation.

Contact details of the pool company:

Postal address

London CIV
Fourth Floor
22 Lavington Street
London
SE1 0NZ

Email: pensionsCIV@londonciv.org.uk

Telephone: 0208 036 9000

Governance Arrangements

The London CIV governance structure was revised from July 2018 and consists of the following:

Board -The Board has the opportunity to consider any views presented to it by the Committee but will not be obliged to take any action in respect of such views unless the Board believes this to be in the best interests of the Shareholders and the Company. The Board consists of an independent Chair, five Non – Executive Directors (NEDs), two NEDs nominated by Local Authorities, three Executive Directors, the Chair of the General meeting, plus a Local Authority Treasurer as an observer.

Shareholders Committee is a committee of the London CIV and acts collectively, are to be consulted by the Board on strategy, direction and financial performance and Company polices. It will also identify, assess and discuss emerging issues and opportunities facing Shareholders which may impact the Company, and discuss solutions proposed by the Company; and to express views to the Board and Shareholders collectively as appropriate. The Shareholder Committee meets quarterly and is made up of 12 members from London Local Authorities (a mix of four Treasurers and eight leaders/pension chairs) plus the Chair of the Board.

General meeting - A General Meeting of the London CIV will be held twice a year with all 32 shareholders plus a Chair, managed by London CIV. The meeting is to inform all shareholders on the performance of the LCIV and allow shareholders to exercise their rights under the Shareholders.

The arrangements with Local Authorities are formalised via a Service Level Agreement (SLA).

Pool set up costs

Since 2015 the Fund has paid a total £290,000 in set up costs associated with the pool company. This is split between annual service charges of £100,000 plus Implementation and Development costs of £190,000. The breakdown of set up costs has not been made available so it is not practical to compile data in the relevant format suggested in the guidance.

Fee savings have been provided by the London CIV to be £398,355 since inception in 2015. Total net savings excluding set up costs are £108,355 since inception.

Ongoing investment management costs

In addition to the operating costs of the pool shown above the Fund also pays ongoing investment costs. These costs include fees paid to the pool for managing the investments and fees paid to managers for assets held outside the pool.

An analysis of these costs are further split between those costs for which the funds pay directly via an invoice and costs that are indirectly charged by reducing the valuation of the fund (In the accounts we take account of the indirect costs by increasing the change in market value). Analysis of costs for the year to 31 March 2019 can be seen in the following table:

	Asset Pool			Non asset pools			
	Direct	Indirect	Total	Direct	Indirect	Total	Fund Total
	£000	£000	£000	£000	£000	£000	£000
Management Fees							
…ad valorem	21	1,737	**1,758**	190	1,720	**1,910**	**3,668**
…performance	-	-	**-**		76	**76**	**76**
Total Management Fees	**21**	**1,737**	**1,758**	**190**	**1,796**	**1,986**	**3,744**
Asset Shared Cost (LCIV Management Fees)	-	77	**77**	-	-	**-**	**77**
Transaction costs	-	-	**-**	-	358	**358**	**358**
Custody Costs	-	55	**55**	23	-	**23**	**78**
Other Costs	-	10	**10**	36	-	**36**	**46**
Total	**21**	**1,879**	**1,900**	**249**	**2,154**	**2,403**	**4,303**

Passive management fees have been included within Asset pool

Asset Allocation and performance for the year as at 31 March 2019

Asset Category	Manager	Opening Value	Closing Value	Performance gross	Performance Net	Passive index	Local Target
		£000	£000	%	%		
Asset pool managed investments							
Pooled Multi Asset/DGF Total		182,714	182,432	0.7	-0.1	n/a	2.8
Pooled Equities Total		127,123	138,245	9.2	8.8	11.0	n/a
Passive Listed Equity Total		98,879	132,172	8.7	8.7	8.7	n/a
Asset pool managed Total		**408,716**	**452,849**	**5.5**	**5.0**	**n/a**	**6.9**
Non Asset pool managed investments							
Pooled Multi Asset/DGF Total		108,696	32,662	-3.7	-4.4	n/a	1.6
Pooled Property Total		40,796	55,155	7.5	6.7	n/a	4.8
Pooled Infrastructure Total			33,083	n/a	n/a	n/a	n/a
Pooled Private Debt Total			3,015	n/a	n/a	n/a	n/a
Pooled Equity Total		7,355	7,680	n/a	n/a	n/a	n/a
Active Bonds Total		119,252	123,070	5.6	5.4	n/a	5.3
Equities Total		-	96	n/a	n/a	n/a	n/a
Cash Deposits Total		3,214	10,505	n/a	n/a	n/a	n/a
Other Total		1,248	1,322	n/a	n/a	n/a	n/a
Derivatives Total		17	-	n/a	n/a	n/a	n/a
Non Asset pool managed investments Total		**280,578**	**266,588**	**2.8**	**2.4**		**4.0**
Fund Total		**689,295**	**719,436**	**3.8**	**3.3**		**5.7**

Source: Hymans, State Street (former WM Company)

Notes for the above table

- Performance figures are based on information provided by WM in their quarterly reporting to 31 March 2019
- We have blended performance from underlying mandates approximately, by allowing for estimated average asset levels over the periods invested. For this purpose, average asset levels are based on information provided to us by the investment managers for quarterly monitoring purposes;
- Gross of fees performance is estimated by adding the charges to the net performance figures.
- We have assumed ‘passive index’ relates to investments which can be replicated via index-tracking funds, and ‘local target’ for other investments
- Performance from the Fund’s recent investments in Real Assets and Private Debt are “n/a” based on the short period since inception, but have been included in the overall performance fund return. Blended performance from non-asset pool managed investments is exclusive of performance from closed ended funds.
- Blended performance figures should be regarded as ‘indicative’ as these have been calculated based on available information.

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 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 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.

The FSS was amended in The Statement was updated in November 2018 to reflect changes made under the LGPS (Amendment) Regulations 2018 that took effect from the 14 May 2018 . The new regulations introduced 'exit payments' for the Fund to employers who leave the Fund and are assessed as being in surplus by the actuary.

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 89 of this report.

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 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 89 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 13th November 2018 for the period 2018 – 2021. A review of the Communication Strategy achievements for 2018/19 is shown below.

The Communications Strategy for 2018 -21 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 http://www.yourpension.org.uk - Select Other Pension Fund documents

Communication Policy Delivery

Action	Audience	Media	End of Year Review 2019
Review and update the pension website www.yourpension.org.uk/handr	All	Web	Forms, Factsheets and Policies have been reviewed, amended and uploaded in line with regulatory changes. Contact details and links have been checked regularly.
Promote the use of the pension website www.yourpension.org.uk/handr	All	Web	The website is promoted on all member correspondence. We have also utilised corporate communications to increase awareness.
Promote My Pension Online – Member Self Service	Active and Deferred	Web	Member Self Service is promoted to all new members to the pension scheme. We have also utilised corporate communications to increase awareness.
Explore the development of My Pensions Online – Member Self Service for pensioner members	Pensioner	Web	Basic information is now available to our pensioner members. They are able to update contact details and view any Expression of Wish details held.
Ensure relevant, accurate and timely communications are sent to all members	All	Paper or electronic	A bulk mailing was sent to all affected members regarding a change in Regulations. Standard communications are monitored as part of the KPI monitoring process.

Communications with Prospective Scheme Members

Action	Audience	Media	End of Year Review 2019
Review and update the pension website www.yourpension.org.uk/handr	All	Web	Forms, Factsheets and Policies have been reviewed, amended and uploaded in line with regulatory changes. Contact details and links have been checked regularly.
Promote the use of the pension website www.yourpension.org.uk/handr	All	Web	The website is promoted on all member correspondence. We have also utilised corporate communications to increase awareness.
Promote My Pension Online – Member Self Service	Active and Deferred	Web	Member Self Service is promoted to all new members to the pension scheme. We have also utilised corporate communications to increase awareness.
Explore the development of My Pensions Online – Member Self Service for pensioner members	Pensioner	Web	Basic information is now available to our pensioner members. They are able to update contact details and view any Expression of Wish details held.
Ensure relevant, accurate and timely communications are sent to all members	All	Paper or electronic	A bulk mailing was sent to all affected members regarding a change in Regulations. Standard communications are monitored as part of the KPI monitoring process.

Communications with Scheme Employers

Action	Audience	Media	End of Year Review 2019
Review and update the pension website www.yourpension.org.uk/handr	All	Web	Forms, Factsheets and Policies have been reviewed, amended and uploaded in line with regulatory changes. Contact details and links have been checked regularly.
Promote the use of the pension website www.yourpension.org.uk/handr	All	Web	The website is promoted on all member correspondence. We have also utilised corporate communications to increase awareness.
Promote My Pension Online – Member Self Service	Active and Deferred	Web	Member Self Service is promoted to all new members to the pension scheme. We have also utilised corporate communications to increase awareness.
Explore the development of My Pensions Online – Member Self Service for pensioner members	Pensioner	Web	Basic information is now available to our pensioner members. They are able to update contact details and view any Expression of Wish details held.
Ensure relevant, accurate and timely communications are sent to all members	All	Paper or electronic	A bulk mailing was sent to all affected members regarding a change in Regulations. Standard communications are monitored as part of the KPI monitoring process.

Communications with Representatives of Members

1. Pensions Committee

Action	Audience	Media	End of Year Review 2019
To submit Committee reports in line with the annual plan and as and when required	Pensions Committee Members	Paper and web	All relevant reports were submitted and presented to Committee and uploaded onto the Havering Website
To arrange required training as and when required	Pensions Committee Members	Face to Face	Various training was provided to all Committee members during the year

2. Local Pensions Board

Action	Audience	Media	End of Year Review 2019
To submit reports in line with the Board work plan and any additional areas identified at meetings	Local Pension Board	Paper and web	All relevant reports were submitted and presented to the Local Pension Board and uploaded onto the Havering Website
To arrange required training as and when required	Local Pension Board	Face to Face and online	Induction training has been provided to new Board member and information regarding external training courses has been circulated.

3. Havering and OneSource Managers

Action	Audience	Media	End of Year Review 2019
To write key or non-key executive decision reports as required in line with the Council's constitution	Senior or oneSource Management	Paper or email	All relevant reports have been written and submitted in line with the Council's Constitution
To ensure the provision of employer estimates is in line with the contractual agreement	HR and Heads of Service	Paper or email	Estimates have been supplied in line with contractual agreements for 90.44% of requests. This is continually monitored and there has been a steady improvement since the start of the administration contract in November 2017

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.

External Audit Opinion

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

Replace with 2018/19

Opinion

We have examined the pension fund financial statements for the year ended 31 March 2018, which comprise the Fund Account, the Net Assets Statement; and the related notes.

In our opinion, the pension fund financial statements are consistent with the full annual statement of accounts of London Borough of Havering for the year ended 31 March 2018 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017-18.

Respective responsibilities of the Chief Operating Officer and the auditor

As explained more fully in the Statement of the s151 Officer's Responsibilities, the Chief Operating Officer is responsible for the preparation of the pension fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the pension fund financial statements within the pension fund annual report with the pension fund financial statements in the statement of accounts of 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 2017-18.

We also read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements.

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

Debbie Hanson (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Luton
31 July 2018

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 952299

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: PensionsFinance@havering.gov.uk

Other useful addresses:

Local Government Pension Scheme website: https://www.lgpsmember.org/

Local Government Pension Scheme information and Havering Pension Fund communication with members: http://www.yourpension.org.uk/handr/Home.aspx
(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

Updated November 2018

Contents

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

Since May 2018, 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 (1)	Upminster & Cranham Residents' Group (1)	North Havering Residents' Group (1)	Independent Residents Group (1)
John Crowder (Chair) Melvin Wallace (Vice-Chair) Matt Sutton	Stephanie Nunn	Ron Ower	Martin Goode	Vacant

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 'rules of procedure' section 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 and Transformation (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. Mandates that operate within the London Collective Investment Vehicle (LCIV) are now manged and monitored by them. 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

Associated training aligned with the Pensions Committee's foreword plan is submitted to the Pensions Committee for approval as part of the Business plan. 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

6.1 Pensions Committee

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

6.2 The Local Pension Board

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

7. SCOPE

7.1 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

7.2 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.	**<u>Structure</u>**	
	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.

	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.

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	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

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.

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	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 200	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	**<u>Access</u>** 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	**<u>Scope</u>** 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.
	<u>Publicity</u> 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 PENSION FUND

COMMUNICATION STRATEGY

2018-2021

Introduction

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

The Communications Strategy is required by the provisions of Regulation 61 of the Local Government Pension Scheme Regulation 2013. The provision requires the Administering Authority to:

(1) Prepare, Maintain and publish a written statement setting out its policy concerning communications with:

- (a) Members
- (b) Representatives of members
- (c) Prospective members
- (d) Scheme employers

(2) In particular the statement must set out its policy on:

- (a) the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers
- (b) the format, frequency and method of distributing such information or publicity; and
- (c) the promotion of the Scheme to prospective members and their employers

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.

Pension Fund Administration

From 1 November 2017, the London Borough of Havering delegated the pension administration service to Lancashire County Council (LCC) who has engaged the Local Pensions Partnership (LPP) to undertake their pension's portfolio. LPP was formed in 2016 through collaboration between LCC and the London Pensions Fund Authority (LPFA) and provides pension services to the Local Government Pension Scheme, police, firefighters and other public sector funds.

Communication Responsibilities and Resources

The provision of timely, relevant information in a suitable format is key to ensuring efficient and effective communications. It is important that we consider the costs in terms of resource and staff time for all communications and work with the LPP to ensure there are appropriate systems and processes in place to facilitate these communications with our stakeholders.

Communications with Scheme Members

Our aims for communicating with our scheme members are:

- to better educate members of the benefits of the scheme to reduce the general queries being directed to the LPP administration team
- to encourage the use of the pension scheme website and registration to My Pension Online - Member Self Service.

The Key actions will be:

- continual review of employee communication methods to ensure they are effective and efficient
- on-going promotion of the Havering Pension Scheme website and Member Self Service
- Working with LPP to ensure communications are relevant and timely

Action	**Audience**	**Media**	**End of Year Review 2019**
Review and update the pension website www.yourpension.org.uk/handr	All	Web	
Promote the use of the pension website www.yourpension.org.uk/handr	All	Web	
Promote My Pension Online – Member Self Service	Active and Deferred	Web	
Explore the development of My Pensions Online – Member Self Service for pensioner members	Pensioner	Web	
Ensure relevant, accurate and timely communications are sent to all members	All	Paper or electronic	

The pension scheme will provide the following communications as required, in addition to day to day individual communications with members.

Communication	**Media**	**Frequency of Issue**	**Distribution**	**Audience**
Yourpension.org.uk/handr Pension Website	Web	Continually available. Updated as required	Advertised on all communications	All
Scheme booklet	Web	Continually available. Updated as required	For viewing as required	All
Factsheets	Web	Continually available. Updated and replaced as required	For viewing as required	All
Newsletters and scheme updates	Web or paper	As required	For viewing as required. Post to home address for targeted communication	All
Forms	Web or paper	As required	Available to download or post to home address	All
Annual Benefit Statements	Web or paper if opted out of online statements	Annually	For viewing as required. Members are informed of availability via personal email, email to employers or internal Global News	Active and Deferred
Road shows/ Workshops	Face to face	When required	Advertised via email, Global News, Posters and employers	Active
Pensioner payslips	Paper	1st pension payment and every April, May and October	Post to home address	Pensioner
Notice of Pensions Increase	Paper	Annually in April	Post to home address with April payslip	Pensioner

Communication	Media	Frequency of Issue	Distribution	Audience
Internal Disputes Resolution Procedure	Paper or Web	Continually available. Updated as required	Post to home address or available to download	All
Annual Report and Accounts	Web	Continually available. Replaced annually	For viewing as required.	All

Explanation of communications

Pension Website - The website will provide scheme specific information, forms, documents (such as newsletters and report and accounts), factsheets, links to related sites including My Pension Online Member Self Service and contact information. We continue to review and develop this site in partnership with LPP.

Scheme booklet - A booklet providing detailed overview of the LGPS, including who can join, how much it costs, the retirement and death benefits and how to purchase additional pension.

Factsheets – These are leaflets that provide information in relation to specific topics, such as redundancy, protections following a drop in pay, survivor benefits and pensions increase.

Newsletters - Newsletters are issued as required, usually when a significant change to the scheme occurs. Pensions Increase newsletters are sent annually to advise pensioner members of the increase to their pension.

Forms – Many of the required LGPS forms are available on the pension website such as opt out form, 50:50 or Main Scheme election form and expression of wish form.

Annual Benefit Statements – For active members these include the current value of benefits as well as the projected benefits to their normal retirement date. The associated death benefits are shown along with details of any individuals the member has nominated to receive the lump sum death grant. For deferred members these show the current value of the pension benefits, associated death benefits and details of any individuals the member has nominated to receive the lump sum death grant. These released at the end of August and are available on My Pension Online – Member Self Service. Members can opt out of the online service and elect to receive a paper copy sent to their home address.

Road shows – These are available, when required, providing staff with the opportunity to have a face to face conversation about their pension rights.

Pensioner payslips – The payslips are sent when a member receives their first pension payment, if the monthly amount varies by more than £5, each April and May. They are posted to the pensioner's home address.

Internal Disputes Resolution Procedure – A formal notification of the procedure to follow in the event that a dispute cannot be resolved by the LPP pension administration team or the Havering Pensions Projects or Contracts Manager

Annual Report and Accounts – Detailed document providing information regarding the value of the Pension Fund during the financial year, income, expenditure and other scheme based information such as the number of scheme members and scheme employers. This is published and available on the pension's website.

Communications with Prospective Scheme Members

Our aims for communicating with our prospective scheme members are:

- to increase the take up of the LGPS
- to better educate members of the benefits of the scheme to reduce the general queries being directed to the LPP administration team

The Key actions will be:

- review of communication methods to ensure they are effective and efficient
- ensuring automatic enrolment and re-enrolment is well communicated

Action	**Audience**	**Media**	**End of Year Review 2019**
Ensure pension forms are included in starter packs	New employees	Paper	
Review and update the pension website	All	Web	
Work with employer to ensure automatic enrolment is correctly communicated	Existing employee	Paper or electronic	

The pension scheme will work with employers to provide the following communication as required.

Communication	**Media**	**Frequency of Issue**	**Distribution**	**Audience**
Pensions Joiner Option Form	Paper	On commencing employment	Via employers	New employees
Yourpension.org.uk/handr Pension Website	Web	Continually available. Updated as required	Advertised on all communications	All
Scheme booklet	Web	Continually available. Updated as required	For viewing as required	All

Communication	Media	Frequency of Issue	Distribution	Audience
Education Sessions	Face to Face	As required	Part of induction workshops	New Employees
Annual Report and Accounts	Web	Continually available. Replaced annually	For viewing as required.	All

Explanation of communications

Pensions Joiner Option Form – Form provided to all new employees which provides the details of the pension scheme website and allows them to advise of any previous pension entitlements.

Pension Website - The website will provide scheme specific information, forms, documents (such as newsletters and report and accounts), factsheets, links to related sites including My Pension Online Member Self Service and contact information. We continue to review and develop this site in partnership with LPP.

Scheme booklet - A booklet providing detailed overview of the LGPS, including who can join, how much it costs, the retirement and death benefits and how to purchase additional pension.

Education sessions – A talk providing an overview of the benefits of the pension scheme and an opportunity to ask questions.

Annual Report and Accounts – Detailed document providing information regarding the value of the Pension Fund during the financial year, income, expenditure and other scheme based information such as the number of scheme members and scheme employers. This is published and available on the pension's website.

Communications with Scheme Employers

Our aims for communicating with our scheme employers are:

- to improve relationships
- to assist them in understanding their role as a scheme employer
- to assist them in understanding their funding/cost requirements
- to work together to achieve accurate scheme actuary data submissions
- to ensure smooth staff transfers

The Key actions will be:

- offer induction meetings for all new scheme employers
- assist with the implementation of Your Fund, the LPP's online submission portal
- on-going promotion of the employer section of the Havering pension website
- working with relevant parties to admit new employers to the fund

Action	Audience	Media	End of Year Review 2019
Maximise the use of the newly developed ERM employer communication database on Altair	Employers	System	
Meet with all new scheme employers to discuss responsibilities and requirements	Employers	Face to face	
Review and update the pension website	Employer	Web	
Work with LPP and Scheme employers to implement Your Fund.	Employer	Web	
Work with LPP and Scheme employers to ensure accurate and timely data submissions	Employer	Email, phone calls or face to face	

The pension scheme will provide the following communication to employers as required.

Communication	Media	Frequency of Issue	Distribution	Audience
Contact sheet	electronic	Annually	By email	All
Induction meeting	Face to Face	On becoming a scheme employer	By email	New scheme employers
Pension Website yourpension.org.uk/handr	Web	Continually available. Updated as required	Advertised on all communications	All
Tupe Manual and Admissions Policy	Web	Continually available. Updated as required	For viewing as required	Scheme employers and potential admitted bodies
Employer roadshows	Face to Face	When required following scheme changes	Advertised via email to employer	All
Annual Report and Accounts	Web	Continually available. Replaced annually	For viewing as required.	All

Communication	Media	Frequency of Issue	Distribution	Audience
Pension Fund Valuation reports	Electronic	Every three years	Via email	All
Funding Strategy Statement	Web	Continually available. Replaced every three years and updated as required	For viewing as required.	All

Explanation of communications

Contact sheet – A form distributed annually to all scheme employers to ensure contact details are kept up to date. Details are recorded on the ERM system on Altair

Induction Meeting – A meeting offered to all new academies and admitted bodies to discuss roles and responsibilities. An information leaflet is being updated to accompany the meeting and will be made available on the pension website once completed

Pension Website - The website will provide scheme specific information, forms, documents (such as newsletters and report and accounts), factsheets, links to related sites including My Pension Online Member Self Service and contact information. We continue to review and develop this site in partnership with LPP

Tupe Manual and Admissions Policy – These documents are relevant to Letting Authorities that are looking to outsource a service to a third party supplier

Employer Roadshows – Provided by LPP as required following a significant change in the scheme

Annual Report and Accounts – Detailed document providing information regarding the value of the Pension Fund during the financial year, income, expenditure and other scheme based information such as the number of scheme members and scheme employers. This is published and available on the pension's website

Pension Fund Valuation Reports – A report issued every three years setting out estimates assets and liabilities of the Fund as a whole and setting individual employer contribution rates for the next three year period

Funding Strategy Statement – A summary of the Fund's approach to funding its liabilities, including reference to the Fund's other policies although it is not an exhaustive statement of policy on all issues.

Communications with Representatives of Members

4. Pensions Committee

Our aims for communicating with Pensions Committee are:

- to provide information to enable the Committee to make decisions delegated under the Council's constitution
- to provide information to ensure the Committee are kept informed of pension related matters
- to ensure the Committee are aware of their responsibilities in relation to the Scheme

The Key actions will be:

- to submit Committee reports, which have been reviewed by the relevant Council business partners and senior manager
- To arrange training sessions when required

Action	Audience	Media	End of Year Review 2019
To submit Committee reports in line with the annual plan and as and when required	Pensions Committee Members	Paper and web	
To arrange required training as and when required	Pensions Committee Members	Face to Face	

The pension scheme will provide the following communication to Pensions Committee Members as required.

Communication	Media	Frequency of Issue	Distribution	Audience
Pensions Committee Reports	Paper and Web	Quarterly and as and when required	By email and available on the Havering.Gov website	Pension Committee Members and Trade Union representatives
Pensions Committee Briefings	Face to face	Quarterly and as and when required		Pensions Committee Members and Trade Union representatives

Communication	Media	Frequency of Issue	Distribution	Audience
Training sessions	Face to face	When there is a new Pensions Committee and as and when required	By email	Pensions Committee Members and Trade Union representatives

Explanation of communications

Pensions Committee Reports – Formal reports written by Pension Fund officers and reviewed by Business Partners and a Senior Leadership Team member. Published on the havering.gov.uk website

Pension Committee Briefings – Pension Fund officers attend each Committee meeting and provide a verbal briefing on each Committee report

Training sessions – Provided by Pension Fund officers, advisors or external experts on investment or administration related matters. Training is shared with the Local Pension Board members where applicable

5. Local Pensions Board

Our aims for communicating with the Local Pensions Board are:

- to provide information to enable the board to assist the Scheme Manager in executing their duties
- to provide information to ensure the board are kept informed of pension related matters
- to provide training with regards to investment and administration matters

The Key actions will be:

- to submit reports on areas identified for review by the Board.
- To arrange training sessions with Fund officers, advisors and external experts when required

Action	Audience	Media	End of Year Review 2019
To submit reports in line with the Board work plan and any additional areas identified at meetings	Local Pension Board	Paper and web	
To arrange required training as and when required	Local Pension Board	Face to Face and online	

The pension scheme will provide the following communication to the Local Pension Board as required.

Communication	Media	Frequency of Issue	Distribution	Audience
Local Pension Board Reports	Paper and Web	Quarterly and as and when required	By email and available on the Havering.Gov and yourpension.org.uk websites	Local Pension Board
Local Pension Board Briefings	Face to face	Quarterly and as and when required	Fund officers attend each meeting	Local Pension Board
Training sessions	Face to face and online	When a new members is appointed. Continual self- development is also required	Face to face delivered by Fund officers and targeted online training	Local Pension Board

Explanation of communications

Local Pension Board reports – Written by Pension Fund officers to provide a formal update to a particular area of work

Local Pension Board briefings – Pension Fund officers attend each Board meeting to provide a verbal overview of written reports and to provide updates on any on-going work

Training sessions – Provided by Pension Fund officers, advisors or external experts on investment or administration related matters. Targeted training is also available for Local Pension Board members online via the Pensions Regulator website. Training is shared with the Pensions Committee members where applicable

6. Havering and oneSource Managers

Our aims for communicating with the Havering and oneSource managers are:

- to provide information to be able to make decisions delegated under the Council's constitution
- to provide accurate, timely and relevant information on request
- to ensure they are aware of any pension related employer costs

The Key actions will be:

- to submit executive decision reports on areas identified as requiring management approval.
- to ensure that employer requests for pension estimates are monitored against the contractual key performance indicator and include employer costs

Action	Audience	Media	End of Year Review 2019
To write key or non-key executive decision reports as required in line with the Council's constitution	Senior or oneSource Management	Paper or email	
To ensure the provision of employer estimates is in line with the contractual agreement	HR and Heads of Service	Paper or email	

The pension scheme will provide the following communication to managers as required.

Communication	Media	Frequency of Issue	Distribution	Audience
Key and non-key executive decision reports and background papers where required	Paper or electronic	As and when required	By email	Officer delegated responsibility under the Council's constitution
Employer requested pension estimates, usually for redundancy, flexible retirement or ill health retirement	Paper or electronic	As requested	By email	HR or Head of Service

Explanation of communications

Key and non key executive decision report - Formal reports written by Pension Fund officers and reviewed by Business Partners and agreed by a Senior Leadership Team member in accordance with the Council's constitution.

Employer requested pension estimates – A detailed statement of the scheme member's pension benefits and any cost to the employer due to the payment of the pension to the member.

7. Other Stakeholders

Pension Fund Manager (Finance)
The Pension Fund Manager (Finance) responds to staff, employer and other enquiries. Skills and knowledge are kept up to date through participation in seminars and conferences.

Pension Projects and Contracts Manager
The Pensions Projects and Contracts Manager is responsible for monitoring the administration contract with the Local Pensions Partnership. Monthly client reviews take place to monitor the contract and check the service level agreements are being met. They are also responsible for maintaining relationships with scheme employers, trade unions and other relevant stakeholders.

Investment Fund Managers
Day to day contact between the Pension Fund Manager (Finance) and the investment fund managers is maintained. Each fund manager is required to present their performance reports to the Pensions Committee on a cyclical basis, unless performance concerns override this.

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 Pension 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 Scheme.

London Borough of Havering Pension Fund

Funding Strategy Statement
Revised November 2018

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Funding Strategy Statement

Appendices

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 MHCLG 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 MHCLG 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, an exit credit will be paid to the Admission Body within three months of the cessation date (or another date agreed between the Administering Authority and 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. Any exit credit as a result of a surplus on cessation would be paid to the TAB within three months (or another date agreed by the Administering Authority and the TAB). These sums may be subject to a 'pass-through' arrangement with the Scheme employer, a bond, an indemnity or other type of 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 or receive an exit credit 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 and a cessation deficit 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 Minister for Housing, Communities & Local Government (MHCLG) 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 MHCLG 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, MHCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

1. the implied deficit recovery period; and
2. the investment return required to achieve full funding after 20 years.

Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;

2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;

3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustments certificate; and

4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

MHCLG 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 Minister for Housing, Communities & Local Government (MHCLG) 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:-

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. 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;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);
11. prepare and maintain a FSS and an ISS, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. 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:-

1. deduct contributions from employees' pay correctly;
2. pay all contributions, including their own as determined by the actuary, promptly by the due date;
3. have a policy and exercise discretions within the regulatory framework;
4. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
5. notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

1. 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;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see Section 5);

3. 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);

4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;

5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;

6. advise on the termination of employers' participation in the Fund; and

7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

1. investment advisers (either internal or external) should ensure the Fund's ISS remains appropriate, and consistent with this FSS;

2. 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;

3. 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;

4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;

5. 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;

6. 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

Risk	Summary of Control Mechanisms
	warning. Some investment in bonds also helps to mitigate this risk. 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

Risk	Summary of Control Mechanisms
	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 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 MHCLG 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 some way	The Administering Authority maintains close contact 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

Risk	Summary of Control Mechanisms
	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, e.g. 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 MHCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. MHCLG 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:

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see D5 below);

2. within the determined time horizon (see 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); and

4. 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:

1. the actual timing of employer contributions within any financial year; and
2. 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 or exit credit to be paid to 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, i.e. 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	The employer contribution rate required to pay for ongoing accrual of active

contribution rate	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**, i.e. 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;
	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.

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.
Page 280	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

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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.

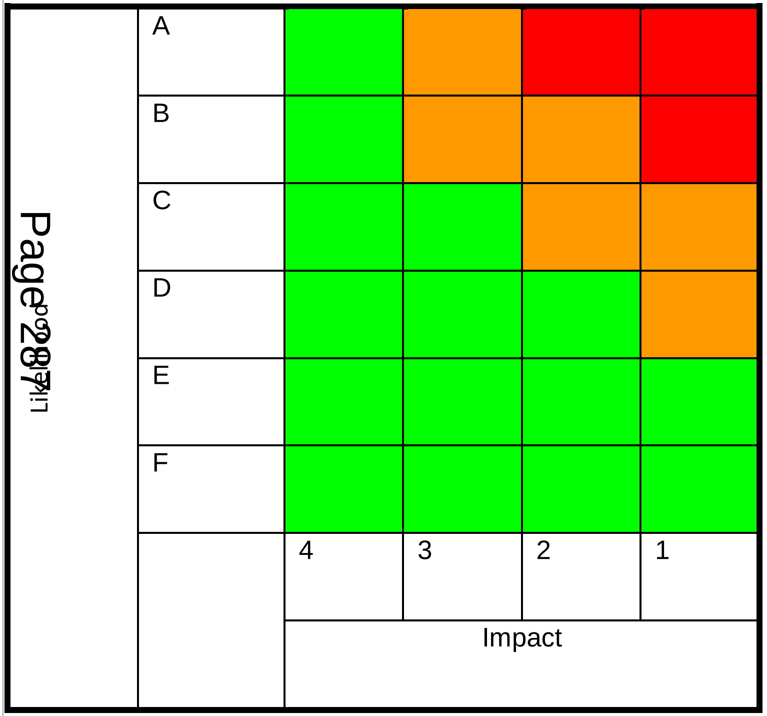
London Borough of Havering

Pension Risk Register

NOVEMBER 2018

Generic Pension Fund Risk Register

The pension fund uses a 4 x 6 matrix to plot risk likelihood and impact and has set its risk appetite. The green shaded area on the matrix shows the risks where there is good control and the Council is comfortable with the risk. Risks in the amber and red zones are those over which closer control is needed.



Risk Likelihood
F = Very Unlikely
E = Unlikely
D = Possible
C = Likely
B = Very likely
A = Certainty

Risk Impact
4 = Negligible
3 = Moderate
2 = Serious
1 = Major

Risk No.	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations as per 2015 Risk Register	Review of Actions taken to date and further actions identified	Risk Owner
1	**Risk of Inaccurate three yearly actuarial valuation** **Cause:** ▪ 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	▪ Deficit position worsens ▪ Employers pay/ continue to pay inappropriate contribution percentages ▪ Increase in employer contributions ▪ Potential for Council Tax increases ▪ More investment risk may be taken to bridge a gap that doesn't actually exist ▪ Potential for a more risk adverse Investment Strategy when more risk is required.	▪ Valuation completed by a qualified professional actuary – next valuation being completed in 2019. ▪ Robust, open procurement process in place for appointment of actuary ▪ Some assumptions for valuation are in compliance with regulation ▪ Actuarial assumptions are open to challenge by officers and GAD ▪ Valuation results are checked for consistency across LGPS funds by GAD via the S13 report ▪ Local Government benchmarking/comparisons of assumptions ▪ Annual review of actuary performance undertaken by Pensions Committee ▪ Internal controls in place to ensure accuracy and completeness of data. ▪ Monitoring of contributions due and received.	D/3	None identified at this point		S151 Officer/ Director of Exchequer and Transactional Services
2	**Risk of Incorrect / Inappropriate Investment Strategy** **Cause:** ▪ Lack or poor	▪ Pension deficit not reduced ▪ Potential for financial loss ▪ Growth	▪ Robust, open procurement process in place for appointment of Investment Advisor ▪ Investment Advisor	D/2	▪ Pensions Committee - Training / Awareness - working towards	▪ Induction carried out for new Pension Fund Committee	S151 Officer

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Risk No.	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations as per 2015 Risk Register	Review of Actions taken to date and further actions identified	Risk Owner
	professional investment advice given ▪ Poor governance ▪ Investment advice is not taken ▪ Lack of understanding and awareness (Pension Committee) ▪ Lack of clear risk appetite ▪ Based upon inaccurate actuarial valuation ▪ Concentration risk by asset, region and sector	opportunities are not maximised ▪ 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 adverse Investment Strategy when more risk is required. ▪ Potential for Council Tax increases ▪ Loss of investment opportunities and adverse performance	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-valuation period ▪ Knowledge and skills training of LPB and Committee Members		full compliance with CIPFA Knowledge and Skills framework ▪ Consider using a further independent advisor for challenge to investment advice	members July 18. ▪ Knowledge and Skills Training is on-going for Pension Committee and Local Pension Board members. ▪ Independent advisor was appointed for a one off exercise following adoption of investment strategy in January 17 to undertake a health check and add robustness on the investment strategy.	
3	**Risk of failure of investments to perform in-line with**	▪ Deficit reduction targets are not met ▪ Potential for	▪ Robust, Fund Manager selection process ▪ Diverse portfolio to reduce negative effects from	D/3	▪ Pensions Committee Training/Awarenes s – working	▪ Induction carried out for new Pension	S151 Officer

Risk No.	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations as per 2015 Risk Register	Review of Actions taken to date and further actions identified	Risk Owner
Page 290	**growth expectations** **Cause** ▪ 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), uncertainty of Brexit ▪ Delays in the implementation of the strategy will reduce the effectiveness of the strategy and may impact growth ▪ Delays in compliance with capital calls on new illiquid mandates could result in penalty payments	losses to be incurred ▪ Increased employer contributions ▪ Reputational risk from poor investments ▪ The fund's assets are not sufficient to meet its long term liabilities ▪ Economy downturn could result in general fall in investment values	market volatility ▪ Fund performance and asset class split is reviewed quarterly by investment advisor/Pensions Committee and officers. ▪ Fund Managers (including LCIV) attend Pension Committee to present quarterly performance reports and challenge by the Committee and Fund Advisor.		towards full compliance with CIPFA Knowledge and Skills framework	Fund Committee members July 18. ▪ CIPFA Knowledge and Skills Training is on-going. **Further Actions 2018** ▪ Continued monitoring of the LCIV ▪ Process in place to fund new illiquid mandates. Officers working closely with	

Risk No.	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations as per 2015 Risk Register	Review of Actions taken to date and further actions identified	Risk Owner
						investment advisor to ensure timings	
4	**Risk of failure to comply with legislative requirements** **Cause:** ▪ Lack of appropriate skills/knowledge of The Pensions Regulator, (TPR), MHCLG and CIPFA Guidance, Financial Regulations and accounting standards ▪ Unaware of legislative changes ▪ key person dependency ▪ Poor/inaccurate interpretation of the regulations ▪ Failure/inability to administer the pension scheme appropriately	▪ Reputational damage ▪ Potential for financial penalties from the TPR ▪ Potential for costly legal challenges ▪ Impact on employer contributions, delayed due to non-compliance. ▪ Adverse external audit report	▪ Financial requirements are subject to external and internal audit. Favourable External audit reports since 2015. Internal audit to take place September 2018. ▪ Experienced personnel in place ▪ Continual personal development for all Committee/LPB members and Officers ▪ Induction carried out for new Pension Fund Committee and Local Pension Board members ▪ Legislative changes are reported to the Pensions Committee where required ▪ Local Pension Board in place to oversee adherence to the regulations ▪ Active participation in Legislative Consultations where appropriate ▪ External and in house training provided where required ▪ Member of the CIPFA	E/3	None identified at this point.		S151 Officer/ Director of Exchequer and Transactional Services

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Risk No.	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations as per 2015 Risk Register	Review of Actions taken to date and further actions identified	Risk Owner
			Pensions Network ▪ Participate in the CIPFA Pensions Network/ Peer forums to share knowledge & awareness ▪ Statutory policy documents reviewed annually to ensure compliance with legislation ▪ Access to specialist pension media sources.				
5	**Risk of inability to manage/govern the Pension Fund and associated services:** **Cause:** ▪ Ineffective / lack of succession planning ▪ Loss of corporate knowledge/ expertise ▪ Long term sickness absence ▪ Increase in staff turnover ▪ LCIV monitoring and resourcing ▪ No knowledge base to store experiences/information ▪ Lack of resource	▪ Negative impacts upon service 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 ▪ Inaccurate data	▪ Bond or guarantee reviews in place and reviewed every three years as part of valuation process • 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	D/3	• Succession planning required for key personnel • Review / update procedure manuals • Option being assessed for joint administration with Newham to build resilience	• Succession planning in progress • Contract Monitoring officer working to prepare procedure manual. • LPP appointed in Havering in November 17 (already in Newham) are working with Havering to provide seamless administration service.	S151 Officer/ Director of Exchequer and Transactional Services

Risk No.	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations as per 2015 Risk Register	Review of Actions taken to date and further actions identified	Risk Owner
Page 293	(Staffing/financial) ▪ ICT failure/Disaster Recovery ▪ Poor pension fund administration including outsourced service by LPP ▪ Poor administration by the employers, payroll providers in the fund ▪ Poor monitoring of employer financial status ▪ Poor communications with stakeholders ▪ Inappropriate investment accounting – including reliance on third party providers. ▪ Excessive charges by suppliers ▪ Employer goes into default, deficit on termination, change of status, financial risk.	provided by the pension fund employers and payroll providers give rise to inaccurate data and financial reputational consequences such as actuary to set contribution rates with a high margin of error. ▪ Higher employer contributions due to poor investment performance ▪ Employer failure to pay scheme contributions on time ▪ Poor Communication with stakeholders giving rise to disaffection and actions against the Council ▪ Insufficient assets to meet short term	custodian to verify asset values and performance • Pension Fund accounts subject to external audit. • Service is subject to external auditor report of LPP processes • Formal agreement in place with administrator, including SLA's • Authority levels clear • The Council has in place a complaints system to address complaints via the website • Continuous pension training for LPB, Pensions Committee members and staff • ICT/ Disaster Recovery in place • Contract Monitoring Officer in place to review the administration work of LPP • Monthly reconciliations to monitor cash flow carried out. • Ee's and Er's contributions reconciled monthly –late payments chased • Fee Invoices checked prior to payment		• Introduce employer covenants checks • Strengthen the process for Bond reviews. • Development of workflow/process management • Establishment of a statutory Local Pension Board to assist the administering authority in effective and	• LPP risk officer employed Contract Monitoring officer is in place and reviews the administration work of LPP including the process for bonds and to ensure guarantees are in place. • LPP works with the Contract Monitoring Officer to develop/improve workflow processes • Local Pension Board established in 2014 and members are continuing with training and development	

Risk No.	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations as per 2015 Risk Register	Review of Actions taken to date and further actions identified	Risk Owner
		liabilities	• Monitor audited accounts of third party providers to ensure consistent asset valuation. • Monitor investment managers performance – Fund Managers present at Pension Fund Committee meetings • Union Representative at the Committee		efficient governance of the Havering Pension Fund. • Development of Training Matrix	• Training matrix in place	
	Risk of failure to on board or exit employers/members effectively **Cause:** ▪ Delays in internal processing of documentation ▪ Member data incomplete ▪ Poor communications with stakeholders ▪ Lack of understanding by employers with regard to their responsibilities ▪ Lack of signed admission agreements from Employers	▪ Delays in collection of contributions from the employers/ members ▪ Impacts cash flow ▪ Potential for litigation ▪ Employer contribution assessment can become out of date ▪ Potential breach of regulations ▪ Incorrect records of new members ▪ External Audit Opinion on internal controls	▪ 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 maintained by the Pensions Administration Team ▪ Tracing agencies used to locate pension fund members ▪ Electronic file of required documents forwarded to new employers ▪ Actuarial assessment completed for all new admission requests to assess the level of risk. ▪ Bonds and suitable guarantees put into place to protect the Fund in case of	D/2	▪ Review of internal processes (particularly legal input) • Completion of TUPE Process Manual • Completion of Admission Policy and an employer manual • Template admission agreement awaiting legal clearance	• Internal Audit for the Pension Fund requested – discussions in place ▪ TUPE manual completed in November 2017 ▪ Admission policy and manual completed in November 2017 includes legal input ▪ Still in progress lead by the risk officer in LPP	S151 Officer/ Director of Exchequer and Transactional Services

Risk No.	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations as per 2015 Risk Register	Review of Actions taken to date and further actions identified	Risk Owner
		▪ Employer's liabilities may fall back onto other employers and ultimately local taxpayers.	default. ▪ Funding level of each employer is assessed as part of the triennial valuation and contribution rates set accordingly.			**Further Actions 2018** ▪ To ensure appropriate admin controls are in place via the internal audit process	
7	**Risk of Pension Fund Payment Fraud** **Cause:** ▪ Pension overpayments arising as a result of non-notification in change of circumstances ▪ Internal staff fraud ▪ Staff acting outside of their levels of authorisation ▪ Conflict of interest	▪ Financial loss ▪ Reputational damage of Pension Administration team and Council ▪ Litigation / investigation ▪ Internal disciplinary ▪ Reputational damage	▪ 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 ▪ Address checked for deferred pensions prior to payment ▪ Internal audit checks carried out ▪ Signed up for DWP database Tell us Once –	E/1	• Consider implementation of a monthly mortality check • Investigating usage of external agencies (i.e. Western Union) (for overseas payments) • Implement internal audit process to report on the effectiveness of	• We are registered for the "Tell us Once" service supersedes a monthly mortality check • Upon review, the service has not been required to date • Internal audit working on the scope of the audit at present.	Director of Exchequer and Transactional Services

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Risk No.	Risk Title (Objectives)	Consequences of not achieving the objective (Effect)	Controls/Mitigations	Likelihood/ Impact	Actions/Recommendations as per 2015 Risk Register	Review of Actions taken to date and further actions identified	Risk Owner
			DWP inform Havering of deaths relating to contributors to the LGPS fund ▪ Pension Fund bank account checked monthly ▪ Register of interests completed at all board meetings		the internal controls .	**Further Actions 2018** • LPP to investigate the cost/use of ATMOS – a mortality screening application. • To Review the usage of external agencies for overseas payments	

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Acronyms

CIPFA	Chartered Institute of Public Finance and Accountancy
DWP	Department for Work and Pensions
GAD	Government Actuary's Department
ICT	Information and Communications Technology
LCIV	London Collective Investment Vehicle
LGPS	Local Government Pension Scheme
LPB	Local Pension Board
MHCLG	Ministry of Housing, Communities and Local Government

Havering
LONDON BOROUGH

PENSIONS COMMITTEE
24 JULY 2019

Subject Heading:	**PENSION FUND ACCOUNTS 2018/19**
SLT 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 2019

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 2019 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 2019 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 2018/19 is currently being audited and will be presented to the Audit Committee for agreement on the 25th July 2019. 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 member's 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 2018/19 accounts that were not already covered in 2017/18 accounts.

1.5 Key movements to note from the 2018/19 accounts are:

- The Net Assets of the Fund have increased to **£733m** for 2018/19 from £707m in 2017/18, a net increase of £26m.

- The net increase of **£26m** is compiled of a change in the market value of assets of £16m, investment income of £11m, net additions of cash of £4m and offset by management expenses of (£5m). Further details are included within the Fund Account and Net Asset Statement included in this report.

- Following the appointment of Real Asset Managers for Infrastructure and Global Property in March 2018 the fund has commenced funding these mandates. To date these mandates have been funded from internal pension fund cash balances and drawdowns from one of the funds multi asset manager (GMO). Further funding will continue during 2019/2020.

- To retain exposure to emerging markets lost through disinvestments with GMO the Fund has also transferred cash to Legal and General Investment Management (LGIM) passive Emerging Market Fund.

- In August 2018 the Fund appointed two Private Debt Managers, Churchill and Permira. These mandates will be funded from drawdowns with the current bond manager. Churchill has commenced funding with Permira capital calls expected in the latter half of 2019.

- Investments analysed by Fund Manager (Note 14b) now shows the split of assets between those assets managed inside and outside of the London CIV asset pool.

1.6 A copy of the audited Pension Fund Accounts and the auditors' opinion will be included in the 2018/19 Pension Fund Annual Report. The statutory publication date for the 2018/19 Pension Fund Annual Report is 1 December 2018.

1.7 The 2018/19 Pension Fund Annual report is being presented on the Pensions Committee elsewhere on this agenda.

1.8 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.

The statutory deadline for accounts to be prepared for audit is the 31 May. 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 2018/19 Pension Fund Annual report is being presented on the Pensions Committee elsewhere on this agenda.

The planned cost of a separate audit opinion for the 2018/19 Pension Fund accounts is £16,170, 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:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

i. the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
ii. the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
iii. foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants

An EIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected

BACKGROUND PAPERS

None

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Pension Fund

Pension Fund Account for the year ended 31 March 2019

2017/18 £'000		Notes	2018/19 £'000
	Dealings with members, employers and others directly involved in the fund		
41,649	Contributions receivables	7	43,725
2,654	Transfers in from other pension funds	8	1,633
44,303			45,358
(36,486)	Benefits	9	(37,834)
(3,808)	Payments to and on account of leavers	10	(3,295)
(40,294)			(41,129)
4,009	Net additions (withdrawals) from dealings with members		4,229
(4,304)	Management expenses	11	(5,523)
(295)	Net additions/(withdrawals) including fund management expenses		**(1,294)**
	Returns on investments		
9,331	Investment income	12	10,835
-	Taxes on Income	13	(4)
26,693	Profit and losses on disposal of investments and changes in the market value of investments	14a	16,746
36,024	**Net returns on investments**		**27,577**
35,729	Net increase (decrease) in the net assets available for benefits during the year		**26,283**
671,379	Opening net assets of the Fund at start of year		707,108
707,108	**Closing net assets of the Fund at end of year**		**733,391**

Net Asset Statement for the year ended 31 March 2019

£'000			£'000
-	Long Term Investments	14	150
689,295	Investment Assets	14	719,286
-	Investment Liabilities	14	-
689,295	**Total net investments**		**719,436**
18,141	Current Assets	21	14,334
(328)	Current Liabilities	22	(379)
707,108	**Net assets of the Fund available to fund benefits at end of the reporting period**		**733,391**

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 2018/19 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, are not included as they come within another national pension scheme.

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 2018/19 five new employers joined the Fund and two ceased.

There are 49 employer organisations with active members within the Havering Pension Fund including the Authority.

The membership profile is detailed below:

31-Mar-18		31-Mar-19
46	**Number of employers with active members**	**49**
	Number of employees in scheme	
4,746	Havering	4,686
1,745	Scheduled bodies	1,961
71	Admitted bodies	70
6,562	**Total**	**6,717**
	Number of pensioners and dependants	
5,769	Havering	5,931
462	Scheduled bodies	522
16	Admitted bodies	20
6,247	**Total**	**6,473**
	Deferred pensioners	
5,221	Havering	5,315
1,115	Scheduled bodies	1,183
48	Admitted bodies	46
6,384	**Total**	**6,544**
19,193	**Total number of members in pension scheme**	**19,734**

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 2019. 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.

A secondary contribution rate (previously known as deficit amount or past service adjustment) may also be charged. This rate is either paid as a monetary value or as an additional percentage 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

From1 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 2018/19 financial year and its position at year end as at 31 March 2019. The accounts have been prepared in accordance with the CIPFA Code of Practice on Local *Authority Accounting* in *the United Kingdom* 2018/19 "(the Code") which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

Paragraph 3.3.1.2 of the Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2018/19.

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 nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administrating authorities the option to disclose this information in the net asset statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The pension fund has opted to disclose this information in Note 20.

The accounts have been prepared on a going concern basis.

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.

Additional employers' contributions in respect of ill-health and early retirements are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long term financial assets.

(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 LGPS Regulations 2013 (see note 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 in accordance with the terms of the transfer agreement. The date set for the transfer of assets and liabilities is the date it becomes recognised in the fund account.

(c) Investment Income

i) Interest Income

Interest income is recognised in the Fund as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

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 due but unpaid are disclosed in the Net Assets Statement as current liabilities, providing the payment has been approved.

(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 Fund discloses its pension fund management expenses in accordance with the CIPFA guidance *Accounting for Local Government Pension Scheme Management Expenses (2016).* All items of expenditure are charged to the fund on an accruals basis as follows:

Administrative Expenses

All staff costs of the pensions' administration team are recharged 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.

Oversight and Governance Costs

All staff costs associated with governance and oversight are recharged 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

Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are shown separately in Note 11a and grossed up to increase the change in value of investments

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.

(g) Lifetime Allowances

Members are entitled to request the Fund pays their tax liabilities due in respect of annual allowance and lifetime allowance in exchange for a reduced pension.

Where the Fund pays member tax liabilities direct to HMRC it is treated as an expense in the year in which the payment occurs.

Net Assets Statement

(g) Financial Assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of assets are recognised by the Fund.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the code and IFRS13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in *Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).*

(h) Foreign Currency Transactions

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

(i) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes

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 (Fund's Bank account) 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
A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. The Fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised by the fund account as part of the change in value of investments.

(l) Actuarial Present Value of Promised Retirement Benefits
The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of International Accounting Standards (IAS) 19 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 Fund provides an additional voluntary contributions (AVC) scheme for it members, the assets of which are invested separately. 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.

AVCs 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 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.

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.

4 Critical Judgements in Applying Accounting Policies

Pension Fund Liability
This 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.

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 reported amounts. Estimates and assumptions take account of historical experience, current trends and future expectations, however actual outcomes could be different from the assumptions and estimates made.

The items in the net asset statement for which there is a significant risk of material adjustment in the forthcoming year are as follows

Item	Uncertainties	Effect if Actual Results differ from Assumptions	Approximate monetary amount (£m)
Actuarial present value of promised retirement benefits (Note 20)	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 Fund's 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 10% 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%	129 16 105

6 Events after the Reporting Date

Ending of the UK's Membership of the European Union
Following the above, 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 impact on the financial statements, but 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

2017/18 £'000		2018/19 £000
	Employees' contributions	
	Normal:	
5,292	Havering	5,482
1,533	Scheduled Bodies	1,641
92	Admitted Bodies	83
	Additional contributions:	
19	Havering	13
4	Scheduled bodies	-
6,940	**Total Employees' Contribution**	**7,219**
	Employers' contributions	
	Normal:	
12,608	Havering	12,930
6,073	Scheduled bodies	6,494
370	Admitted bodies	346
	Deficit funding:	
14,303	* Havering	16,220
	Augmentation	
715	Havering	324
633	Scheduled bodies	192
7	Admitted bodies	-
34,709	**Total Employers' Contributions**	**36,506**
41,649	**Total Contributions Receivable**	**43,725**

*The £16.220m deficit funding in 2018/19 reflects additional contributions made by the Authority to the Pension Fund. It consists of £11.150m secondary contributions and £5.070m in voluntary planned contributions.

By authority

2017/18 £'000		2018/19 £000
32,937	Havering	34,969
8,243	Scheduled bodies	8,327
469	Admitted Bodies	429
41,649	**Total Contributions Receivable**	**43,725**

8 Transfers in from Other Pension Funds

2017/18 £000		2018/19 £000
2,654	**Individual transfers**	1,633
2,654	**Transfers In from Other Pension Funds**	**1,633**

9 Benefits Payable

By category

2017/18 £000		2018/19 £000
	Pensions	
28,306	Havering	29,702
1,169	Scheduled Bodies	1,222
637	Admitted Bodies	648
30,112	**Pension Total**	**31,572**
	Commutation and Lump Sum Retirements	
4,328	Havering	4,823
864	Scheduled Bodies	501
247	Admitted Bodies	250
5,439	**Commutation and Lump Sum Retirements Total**	**5,574**
	Lump Sum Death Benefits	
831	Havering	477
104	Scheduled Bodies	165
-	Admitted Bodies	46
935	**Lump Sum Death Benefits Total**	**688**
36,486	**Total Benefits Payable**	**37,834**

By authority

2017/18 £000		2018/19 £000
33,465	Havering	35,002
2,137	Scheduled bodies	1,888
884	Admitted Bodies	944
36,486	**Total Benefits Payable**	**37,834**

10 Payments To and On Account of Leavers

2017/18 £000		2018/19 £000
46	Refunds to members leaving service	120
3,762	Individual transfers	3,175
3,808	**Payments to and on Account of Leavers**	**3,295**

At the year end there are potential liabilities of a further £0.562m in respect of individuals transferring out of the Pension Fund upon whom the Fund is awaiting final decisions (See Note 26).

11 Management Expenses

2017/18 £000		2018/19 £000
532	Administrative Costs	801
3,346	Investment Management Expenses	4,303
403	Oversight and Governance Costs	399
18	Oversight and Governance Costs - External Audit costs	16
5	Local Pension Board	4
4,304	**Management Expenses**	**5,523**

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 £0.076m (2017/18 £0.096m) in respect of performance-related fees paid/payable to the fund's investment managers. It also includes £0.358m in respect of transaction costs (2017/18 £0.122m).

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note 14).

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

11a. Investment Management Expenses

2017/18 £000		2018/19 £000
3,188	Management Fees	3,895
16	Performance measurement fees	27
20	Custody fees	23
122	Transaction costs	358
3,346	**Investment Management Expenses**	**4,303**

12 Investment Income

2017/18 £000		2018/19 £000
3,577	Pooled Investments - unit trusts and other managed funds	4,841
3,260	*Income from Bonds	3,514
2,238	Pooled Property Investments	1,960
140	Income form Derivatives (Foreign Exchange Gains/(losses))	289
113	Interest on Cash Deposits	149
3	Other Income	82
9,331	**Investment Income**	**10,835**

* Income includes Index linked Interest of £0.126m (2018/19 £0.161m).

13 Taxes on Income

2017/18 £000		2018/19 £000
-	Withholding Tax	(4)
-	**Taxes on Income**	**(4)**

14 Analysis of Investments

2017/18 £000		2018/19 £000
	Investment Assets	
-	**Long Term Investments**	150
-		**150**
	Bonds - Fixed Interest Securities	
15,322	UK Public Sector quoted	13,901
68,806	UK Corporate quoted	76,084
84,128		**89,985**
	Bond - Index-Linked Securities	
30,857	UK Public Sector quoted	30,150
2,213	UK Corporate quoted	2,936
2,053	Overseas Public Sector quoted	-
35,123		**33,086**
	Equities	
-	UK Quoted	96
-		**96**
	Derivative Contracts	
18	Forward Currency Contracts	-
18		**-**
	Pooled Investment	
524,615	UK Unit trusts - Quoted	493,040
152	UK Unit Trusts - Unquoted	-
-	Overseas Other unit trusts - Unquoted	36,097
40,796	UK Pooled property investments -Unquoted	42,109
-	Overseas pooled Property investments - Unquoted	13,046
565,563		**584,292**
3,215	Cash deposits Managers	10,505
68	Amounts receivable for sales	-
1,172	Investment income due	1,318
8	Outstanding Dividend and Recoverable Withholding Tax	4
4,463		**11,827**
689,295	**Total Investment Assets**	**719,436**
	Investment Liabilities	
-	**Total Investment Liabilities**	**-**
689,295	**Total Net Investments**	**719,436**

14a. Reconciliation of movements in investments and derivatives

	Market Value at 1 April 2018	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 2019
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Equities	**-**	84	-	(10)	22	96
Fixed Interest Securities	84,128	25,991	(21,565)	1,431	-	89,985
Index-linked Securities	35,123	8,412	(12,290)	1,841	-	33,086
Pooled Investment Vehicles	565,563	79,680	(74,278)	13,499	(22)	584,442
Derivatives – forward currency contracts	18	86,021	(86,021)	(18)	-	-
Cash Deposits (fund managers)	3,215	-	-	3	7,287	10,505
	688,047	**200,188**	**(194,154)**	**16,746**	**7,287**	**718,114**
Other Investment Balances	1,248	-	-	-	74	1,322
	689,295	**200,188**	**(194,154)**	**16,746**	**7,361**	**719,436**

	Market Value at 1 April 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)	(1,449)	84,128
Index-linked Securities	36,940	17,293	(20,533)	(26)	1,449	35,123
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	**0**	**0**	**0**	**(9)**	1,248
	658,508	**76,197**	**(73,270)**	**26,693**	**1,167**	**689,295**

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 £0.358m (2017/18 £0.122m). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles.

The investments analysed by fund managers and the market value of assets under their management as at 31 March 2019 were as follows:

14b. Investments analysed by Fund Manager

Value 31 March 2018		Manager	Mandate	Value 31 March 2019	
£000	%			£000	%
Investments managed by London CIV asset Pool:					
		London CIV	Equities Unquoted	150	0.02
		Ruffer	Pooled Absolute Return Fund	94,692	13.16
		Baillie Gifford	Pooled Global Alpha Growth Fund	138,095	19.20
		Baillie Gifford	Pooled Diversified Growth Fund	87,740	12.20
309,837	**44.95**	London CIV	Pooled Global equities	-	-
309,837	**44.95**			**320,677**	**44.58**
PLUS Life Fund Investments aligned with London CIV asset pool:					
98,879	14.34	Legal & General Investment Management	Passive UK/Global Equities/ Emerging Markets	132,172	18.37
408,716	**59.29**	**London CIV Total**		**452,849**	**62.95**
Investments managed outside of the London CIV asset Pool:					
131,077	19.02	Royal London	Investment Grade Bonds	135,062	18.77
40,796	5.92	UBS	Pooled Property	43,541	6.05
108,696	15.77	GMO Global Real Return (UCITS) Fund	Pooled Multi Asset	34,450	4.79
-	-	CBRE	Global Pooled Property	13,422	1.87
-	-	Stafford Capital	Overseas Pooled Infrastructure	7,791	1.08
-	-	JP Morgan	Overseas Pooled Infrastructure	29,241	4.06
		Churchill	Overseas Pooled Private Debt	3,072	0.43
10	0.00	Other	Other	8	0.00
280,579	**40.71**			**266,587**	**37.05**
689,295	**100.00**	**Total Fund**		**719,436**	**100.00**

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

Market Value 31-Mar-18	% of total fund	Security	Market Value 31-Mar-19	% of total fund
£000	%		£000	%
126,973	18.00	London CIV Global Alpha Fund	138,095	19.20
95,216	13.00	London CIV Ruffer Absolute Return Fund	94,692	13.16
87,498	12.00	London CIV Diversified Growth Fund	87,740	12.20
49,393	7.00	LGIM All World Equity Index	54,689	7.60
49,486	7.00	LGIM FTSE RAFI AW 3000 Index	52,717	7.33
40,796	6.00	UBS Property	42,109	5.85
108,696	15.00	GMO Global Real Return (UCITS) Fund	-	-

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. Stocklending 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 2019, the value of quoted equities on loan was £97.6m (£75.7m 31 March 2018) 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. A breakdown of forward contracts held by the Fund as at 31 March 2019 and prior year is shown below:

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Asset Value (Unrealised Gain)	Liability Value (Unrealised Loss)
	£000	£000	£000	£000	£000	£000
Gross open forward currency contracts at 31 March 2019					-	-
Net forward currency contracts at 31 March 2019					-	-
Prior year comparative						
Gross open forward currency contracts at 31 March 2018					18	-
Net forward currency contracts at 31 March 2018					18	-

16 Fair Value Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market based information. There has been no change in the valuation techniques used during the year.

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
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
UK 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
Oversea Pooled instruments property funds	Level 3	The valuation function is performed by the Alternative Investment Fund Manager (AIFM) in accordance with the AIFMD	A Pricing Committee, composed of senior members of the AIFM, is in place, who meet quarterly and is responsible for overseeing proposed adjustments to the value of investments	Valuations could be affected by significant differences in rental value and rental growth. There may be a timing difference between the date of the last reported underlying property valuation and the date of the Funds financial statements, during which the underlying property valuation may have increased or decreased by a significant amount

16 Fair Value Basis of Valuation continued

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 2019.

	Assessed valuation range (+/-)	Value at 31 March 2019	Value on increase	Value on decrease
	%	£000	£000	£000
Pooled Investments – Property funds	3.40	55,155	57,030	53,280

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.

Level 1

Where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Level 2

Where quoted market prices are not available or where valuation techniques are used to determine fair value based on observable data.

Level 3

Where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

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 2019	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial Assets				
Financial assets at fair value through profit and loss	616,207	36,247	55,155	707,609
Loans and receivables	26,161	-	-	26,161
Total Financial Assets	**642,368**	**36,247**	**55,155**	**733,770**
Financial Liabilities				
Financial liabilities at fair value through profit and loss	(379)	-	-	(379)
Total Financial Liabilities	**(379)**	**-**	**-**	**(379)**
Net Financial Assets	**641,989**	**36,247**	**55,155**	**733,391**

16a. Fair Value Hierarchy continued

	Quoted Market price	Using observable inputs	With significant unobservable inputs	
Values at 31 March 2018	**Level 1 £000**	**Level 2 £000**	**Level 3 £000**	**Total £000**
Financial Assets				
Financial assets at fair value	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 fair value	(328)			(328)
Total Financial Liabilities				
Net Financial Assets	**666,160**	**152**	**40,796**	**707,108**

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

16b. Reconciliation of Fair Value Measurement within Level 3

	Market Value 31 March 2018	Transfer In/Out of Level 3	Purchases	Sales	Unrealised gains/losses	Realised gains/losses	Market Value 31 March 2019
	£000	£000	£000	£000	£000	£000	£000
Property Funds	40,796	-	13,301	(18)	1,076	-	55,155
Total	**40,796**	-	**13,301**	**(18)**	**1,076**	-	**55,155**

Unrealised and realised gains and losses are recognised in the profit and losses on disposal and changes in the market value of investments line of the fund account

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-18				31-Mar-19		
Fair value through profit and loss	**Assets at amortised cost**	**Liabilities at amortised cost**		**Fair value through profit and loss**	**Assets at amortised cost**	**Liabilities at amortised cost**
£000	**£000**	**£000**		**£000**	**£000**	**£000**
			Financial Assets			
-	-	-	Long Term Investments	150	-	-
-	-	-	Equities	96	-	-
84,128	-	-	Bonds -Fixed Interest Securities	89,985	-	-
35,123	-	-	Bonds - Index linked securities	33,086	-	-
18	-	-	Derivative contracts	-	-	-
524,767	-	-	Pooled investment Vehicles	529,137	-	-
40,796	-	-	Property	55,155	-	-
-	3,215	-	Cash	-	10,505	-
-	1,248	-	Other Investment Balances	-	1,322	-
-	18,141	-	Debtors	-	14,334	-
684,832	**22,604**	**-**	**Financial Assets Total**	**707,609**	**26,161**	**-**
			Financial Liabilities			
-	-	-	Other Investment Balances	-	-	-
-	-	(328)	Creditors	-	-	(379)
-	**-**	(328)	**Financial Liabilities Total**	**-**	**-**	**(379)**
684,832	**22,604**	**(328)**	**Grand total**	**707,609**	**26,161**	**(379)**
	707,108				**733,391**	

(b) Net Gains and Losses on Financial Instruments

2017/18 £000		**2018/19 £000**
	Financial assets	
26,693	Fair value through profit and loss	16,746
26,693	**Total**	**16,746**

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 investment return.

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 pension fund 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 Pensions & Investments Research Consultants (PIRC) , it has been determined that the following movements in market price risk are reasonably possible for the 2018/19 reporting period:

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

Asset Type	Value as at 31 March 2019 £000	Potential market movements %	Value on Increase £000	Value on Decrease £000
Equities	96	10.10	106	86
Total Bonds	123,071	8.90	134,023	112,067
Global Pooled inc.UK	529,287	6.10	561,574	497,001
Property	55,155	3.40	57,030	53,280
Cash	10,505	0.50	10,558	10,453
Total	**718,114**		**763,291**	**672,887**

Asset Type	Value as at 31 March 2018 £000	Potential market movements %	Value on Increase £000	Value on Decrease £000
Fixed Interest Bonds	84,128	8.12	92,526	78,628
Index linked Bonds	35,123	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**

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 2019 and 31 March 2018 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 Fund 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 2019 £000	Potential movement on 1% change in interest rates	Value on increase £000	Value on Decrease £000
Bond Securities	123,071	1,231	124,301	121,839
Cash and Cash Equivalents	10,505	105	10,610	10,400
Cash Balances	13,698	137	13,836	13,562
Total Change in Asset Value	**147,274**	**1,473**	**148,747**	**145,801**

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	117,071	114,753
Cash and Cash Equivalents	3,215	32	2,060	2,019
Cash Balances	17,658	177	12,950	12,694
Total Change in Asset Value	**140,125**	**1,402**	**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 any cash balances and investment assets not denominated in UK sterling.

Currency Risk - Sensitivity Analysis

Following analysis of historical data in consultation with Pensions & investments Research Consultants (PIRC) it has been determined that a likely volatility associated with foreign exchange rate movements is 8.9% over a rolling 36 month period.

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

A 8.9% strengthening and weakening of the pound against the various currencies in which the Fund holds investments would increase or decrease the net assets available to pay benefits as follows:

Currency Risk – Sensitivity Analysis

Assets exposed to currency risk	Value as at 31 March 2019	Potential Market movement	Value on increase	Value on Decrease
	£000	8.90%	£000	£000
Overseas Pooled	49,143	4,374	53,517	44,769
Overseas Cash	770	69	839	701
Total change in assets available to pay benefits	**49,913**	**4,443**	**54,356**	**45,470**

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**

(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 Pension Fund therefore takes steps to ensure that it always has adequate cash resources to meet its commitments. The Fund's cash holding under its treasury management arrangements as at 31 March 2019 was £13.69m (31 March 2018 £17.66m).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 2019 the value of liquid assets was £642m, which represented 88% of the total Fund (31 March 2018 £666m, 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 2018/19

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 (updated November 2018). 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-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 2018

Since the last formal valuation, real bonds yields have fallen placing a higher value on the liabilities. This has been offset by strong asset returns over the period such that the funding level is broadly unchanged since 31 March 2016.

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

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, but 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 benefits on this basis, the actuary has updated the actuarial assumption(set out below) from those used for funding purposes (see Note 19). The actuary has also valued ill health and death benefits in line with IAS19.

31-Mar-18	Year Ended	31-Mar-19
£m		£m
1,226	Present Value of Promised Retirement Benefits	1,340
707	Fair Value of Scheme assets (bid Value)	733
519	**Net Liability**	**607**

The promised retirement benefits at 31 March 2019 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 2019 and 31 March 2018. It is estimated that the impact of the change in financial assumptions to 31 March 2019 is to decrease the actuarial present value by £71m. 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-19	31-Mar-18
	% p.a.	% p.a.
Pension Increase Rate	2.5	2.4
Salary Increase Rate	2.8	2.7
Discount Rate	2.4	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 2019	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% p.a. increase in the Pension Increase Rate	8%	105
0.5% p.a. increase in the Salary Increase Rate	1%	16
0.5% p.a. decrease in the Real Discount Rate	10%	129

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 2019 for accounting purposes'. The covering report identifies the appropriate reliance and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

21 Current Assets

2017/18 £000		2018/19 £000
	Debtors:	
294	Contributions due from employers	372
80	Contributions due from employees	100
104	Pension Fund Bank Account Balances	211
29	Sundry Debtors	26
17,634	Cash deposit with LB Havering	13,625
18,141	**Current Assets**	**14,334**

2017/18 £000	Analysis of Debtors	2018/19 £000
294	Public corporation and trading funds	-
80	Other entities and individuals	-
374	**Total Debtors**	**-**

22 Current Liabilities

2017/18 £000		2018/19 £000
	Creditors:	
(84)	Benefits Payable	(120)
(164)	Sundry Creditors	(122)
(80)	Holding Accounts	(137)
(328)		**(379)**

2017/18 £000	Analysis of Creditors	2018/19 £000
(328)	Other entities and individuals	-
(328)	**Total**	**-**

23 Additional Voluntary Contributions

Market Value 2017/18 £000	AVC Provider	Market Value 2018/19 £000
810	Prudential	788
167	Standard Life	134

Some employees made additional voluntary contributions (AVC's) of £35,004 (2017/18 £47,519) 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 2018/19 were £32,604 (2017/18 £40,744) to the Prudential and £2,400 (2017/18 £6,775) 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:

2017/18 £000		2018/19 £000
1,380	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 2018/19, £0.710m was paid to the Authority for the cost of administrating the Fund (2017/18 £0.450m).

The Authority is also the largest employer in the Fund and in 2018/19 contributed £29.150m (17/18 £26.911m) to the Pension Fund in respect of employer's contributions. All monies owing to and due from the fund were paid in year.

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 2019 cash holdings totalled £13.7m (2017/18 £17.7m), earning interest over the year of £0.148m (2017/18 £0.113m).

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 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 3.9.4.4 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

Outstanding capital commitments (investments) at 31 March 2019 were £91.35m. (31 March 2018: none). These commitments relate to outstanding capital call payments due on unquoted limited partnership funds held in Private Debt and Infrastructure parts of the portfolio.

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 £0.562m 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.

Two admitted bodies in the Pension Fund hold insurance bonds or guarantees in place to guard against the possibility of being unable to meet their pension obligations. These bonds total £1.14m and are drawn down in favour of the Pension Fund. Payment will only be triggered in the event of employer default.

Two admitted bodies, which are subject to pending legal agreements, will hold bonds or guarantees totalling £0.16m.

Havering
LONDON BOROUGH

PENSIONS COMMITTEE

Subject Heading:	POLICY FOR THE OVERPAYMENT OF PENSION FOLLOWING THE DEATH OF A PENSIONER OR DEPENDANT MEMBER
SLT Lead:	Jane West
Report Author and contact details:	Caroline Berry 01708 432185 Caroline.berry@onesource.co.uk
Policy context:	Local Government Pension Scheme Regulations 2013
Financial summary:	Havering agree to automatically write off any overpaid pension of less than £250 net following the death of a pensioner or dependant member and where there is no ongoing dependant pension. A debt of less than £250 has been deemed uneconomical to pursue. During 2017/18 a total debt of £4652.63 would have been written off from the Pension Fund had the policy been in place.

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

It is good practice to ensure the Council has a policy in place regarding the treatment of overpaid pensions following the death of a pensioner or dependant member. This will ensure that any overpayments are treated in a fair and equitable manner and will prevent the administration team seeking individual write off approvals from the Head of Pensions and Treasury.

The policy has been approved by the Head of Pensions and Treasury under the OneSource Joint Committee Scheme of Delegation.

The policy became effective in March 2019 and will be reviewed annually.

RECOMMENDATIONS

The committee is recommended to note the approved Policy for the overpayment of pension following the death of a pensioner or dependant member.

REPORT DETAIL

Notification of the death of a pensioner or dependant member does not always happen immediately. When notified in time the payroll team will stop or recall the last monthly pension payment to prevent a potential overpayment of pension benefits.

If this is unsuccessful, the London Borough of Havering agree to automatically write off an overpayment of less than £250 net, where there is no ongoing dependant pension to be paid.

A value of less than £250.00 net in the instance of the death of a pensioner or dependant member has been deemed by Officers as uneconomical to pursue when taking into account the cost of the administration involved in additional correspondence and raising and chasing an invoice. The cost of this work has been estimated as £76.91 per case. It is also important to take into account the reputation of the Council in seeking to recover relatively small amounts from bereaved relatives.

Where there is an ongoing dependant pension benefit due this can be used to recover any overpaid pension, regardless of the value of that overpayment.

An invoice will be raised by the Fund to recover an overpayment which is £250.00 net or more following the death of a pensioner or dependant member.

During 2017/18 the total debt to the Pension Fund that would have been automatically written off if the policy had been in place was £4,652.63 covering 46 different cases, which is an average of £101.14 per case.

IMPLICATIONS AND RISKS

Financial implications and risks:

It is not economical to pursue recovery of any overpayment below £250 net – cases are few and the amount of write –off in any year is typically less than £5,000.

Legal implications and risks:

There are no apparent risks in noting the content of this Report.

Human Resources implications and risks:

There appear to be no HR implications or risks arising directly that impact on the Councils workforce.

Equalities and Social Inclusion Implications and Risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

(i) the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
(ii) the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
(iii) foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants. We will ensure that disabled people with sensory impairments are able to access the strategy.

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HAVERING PENSION FUND

Policy regarding the overpayment of pension following the death of a pensioner or dependant member

March 2019

Havering Pension Fund

Policy regarding the overpayment of pension following the death of a pensioner or dependant member

Purpose

It is good practice to ensure the Council has a policy in place regarding the treatment of overpaid pensions following the death of a pensioner or dependant member. This will ensure that any overpayments are treated in a fair and equitable manner and will prevent the administration team seeking individual write off approvals from the Head of Pensions and Treasury.

The policy is designed to ensure that any overpayments are treated in a fair and equitable manner.

Policy Detail

Notification of the death of a pensioner or dependant member does not always happen immediately. Whenever possible, the payroll team will stop or recall the last monthly pension payment to prevent a potential overpayment of pension benefits.

If this is unsuccessful, the London Borough of Havering agree to automatically write off an overpayment of less than £250 net, where there is no ongoing dependant pension to be paid.

A value of less than £250.00 net in the instance of the death of a pensioner or dependant member has been deemed by the Fund as uneconomical to pursue when taking into account the cost of the administration involved in additional correspondence and raising and chasing an invoice. However, where there is an ongoing dependant pension benefit due this can be used to recover any overpaid pension, regardless of the value of that overpayment.

An invoice will be raised by the Fund to recover an overpayment which is £250.00 net or more following the death of a pensioner or dependant member.

Ownership and authorisation

The policy lead is the Pension Projects and Contracts Manager, who will be responsible for the review of the policy as and when there are regulatory, audit or legislative changes. The Head of Pensions and Treasury will approve the policy and any future revisions as allowed under the OneSource Scheme of Delegation.

The policy is effective from 20th March 2019 and will be reviewed annually.

Havering
LONDON BOROUGH

PENSIONS COMMITTEE 24 JULY 2019

Subject Heading:	**BUSINESS PLAN/ANNUAL REPORT ON THE WORK OF THE PENSIONS COMMITTEE 2018/19**
SLT Lead:	**Jane West**
Report Author and contact details:	**Debbie Ford Pension Fund Manager 01708432569 Debbie.ford@onesource.co.uk**
Policy context:	**A Business plan demonstrates compliance against Myners' principles for effective decision making**.
Financial summary:	**Any associated costs met by the Pension Fund**

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 sets out the work undertaken by the Committee during 2018/19 and the plan of work for the forthcoming three years, attached as **Appendix A**. This will form the basis of the Pension Fund Business Plan.

This report explains why a Business Plan is needed and what it should contain.

RECOMMENDATIONS

That the Committee:

Note that in order to meet the Councils democratic report clearance deadlines for the Full Council meeting on the 10 July 2019, the Business Plan/Report of the work of the Committee was agreed by the Chair of this Committee in advance of this Committee meeting. The Committee is therefore recommended to note this report and that it will be referred to the Full Council meeting for consideration.

REPORT DETAIL

1. Background

1.1 Included within Myners Principle 1: Effective Decision Making suggested best practice was to create a Business Plan and a Training Plan.

1.2 The new Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulations 2016 has removed the requirement to publish compliance against the six Myners principles but the Committee agreed to still publish and explain compliance against these principles. This was published with the new Investment Strategy Statement in March 2017.

1.3 To meet best practice it is appropriate to continue to prepare a report on the activity of the Committee on an annual basis and this will be adopted as the Business Plan. The Business Plan will incorporate the Training Plan. This would demonstrate compliance against Myners Principles 1: Effective Decision making.

1.4 In line with the Councils constitution – Part 4 Rules of procedure Ordinary meetings of the Council will receive reports for the previous year from the Chair of the Pensions Committee:

1.5 CIPFA guidance suggests that the Business Plan is submitted to the committee for consideration and should contain:

a) Major milestones & issues to be considered by the Committee
b) Financial estimates – investment and administration of the Fund
c) Appropriate provision for training
d) Key targets & methods of measurement
e) Review level of internal & external resources the committee needs to carry out its functions
f) Recommended actions to put right any deficiencies.

2. Training

2.1 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:

a) To consider and agree the investment strategy and statement of investment principles (SIP) (subsequently superseded by the Investment Strategy Statement) for the Pension Fund and subsequently monitor and review performance
b) Authorise staff to invite tenders and to award contracts to actuaries, advisers and fund managers and in respect of other related investment matters
c) To appoint and review the performance of advisers and investment managers for pension fund investments
d) 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.

2.2 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.

2.3 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.

2.4 A joint training strategy that incorporates Pension Committee member training with LPB members to keep officer time and training costs to a minimum, has been developed and agreed by the Pensions Committee on the 24 November 2015 and the Local Pension Board on the 6 January 2016. The Training Strategy can be found in **Appendix A - Annex C.**

2.5 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's Knowledge and Skills Code of Practice.

2.6 Training and development will be held with regard to the work plan as shown in **Appendix A - Annex B**. The training undertaken can be seen within **Appendix A - Annex D**

2.7. Maintaining expertise, experience and knowledge is a key focus for the committee in order to meet the "qualitative test" under **Markets in Financial Instrument Directive (MiFID 11).** Firms will 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 are capable of making their own investment decisions and have an understanding of the risks involved before a firm will permit election to professional status. All requests for election have been granted for existing investment service providers.

IMPLICATIONS AND RISKS

Financial implications and risks:

Training costs are met from the Pension Fund directly or via the Advisor Fee.

There is a considerable risk of poor decision making if Members of the Committee are not adequately trained.

Legal implications and risks:

In line with the Councils constitution – Part 4 Rules of procedure Ordinary meetings of the Council will receive reports for the previous year from the Chair of the Pensions Committee:

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:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

i. the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
ii. the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
iii. foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants

An EIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected

BACKGROUND PAPERS

None

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APPENDIX A

Havering

LONDON BOROUGH

HAVERING PENSION FUND

BUSINESS PLAN/REPORT ON THE WORK OF THE PENSIONS COMMITTEE DURING 2018/19

INTRODUCTION

The Havering Pension Fund (the Fund) provides benefits to Council employees (except teachers). The performance of the Fund impacts on the cost of Council services through the cost of employer contributions. It is therefore beneficial to issue a Business Plan/Annual report to all Council Members on the Havering Pension Fund and the work of the Pensions Committee.

The Business Plan looks forward over the next three years and will be reviewed and updated annually.

This report also covers the period 1st April 2018 to 31 March 2019 and outlines:

- The work of the Pensions Committee
- Key issues arising during the course of the year

The value of assets held and the financial position of the Havering Pension Fund for 2018/19 is included in the formal Annual Report of the Fund itself and not included here. The Annual Report is prepared later in the year when the pension fund accounts have been finalised.

BACKGROUND TO THE PENSION FUND

The Council is an Administering Authority under the Local Government Pension Scheme Regulations and as such invests employee and employer contributions into a Fund in order to pay pension benefits to scheme members. The Fund is financed by contributions from employees, employers and from profit, interest and dividends from investments.

The Pension Fund has a total of 49 employers with active members, of which the London Borough of Havering is the largest. The other employers in the Fund are made of up of 43 Scheduled bodies (Academies and Further Education bodies) and 6 Admitted bodies (outsourced contracts). There were five new employers and two cessations during 2018/19.

The Council has delegated the responsibility for investment strategy and performance monitoring to the Pensions Committee.

Pension Fund – Funding

The Fund's Actuary (Hymans Robertson) carried out a triennial valuation during 2016/17 based on data as at 31 March 2016. The main purpose of the valuation is to calculate the funding position within the Fund and set employer contribution rates for the following three years with new rates commencing 1 April 2017.

The valuation is a planning exercise for the Fund, to assess the monies needed to meet the benefits owed to its members as they fall due. As part of the valuation process, the Fund reviews its funding and investment strategies to ensure that an appropriate contribution plan is in place.

As a measure of monitoring that the funding plan is on track the Fund Actuaries also provided Members with a report to illustrate the estimated development of the Pension Fund's funding position from 31 March 2016 to 30 September 2017 (the mid-way point between valuations)

A comparison of funding levels can be seen below:

Summary

Ongoing funding basis	31 Mar 2013	31 Mar 2016	30 Sep 2017
	£m	£m	£m
Assets	461	573	687
Liabilities	752	857	990
Surplus/(deficit)	**(292)**	**(284)**	**(303)**
Funding level	61.2%	66.8%	69.4%

The improvement in funding position is mainly due to strong investment performance over the periods. The next valuation will be based on data as at 31 March 2019 and the results will be presented to the Pensions Committee during the autumn 2019.

Pension Fund – Investment Strategy Development & Performance Monitoring

In conjunction with 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) from March 2017 and later updated in November 2017.

The asset allocations as at 31 March 2019 are shown below together with individual fund manager benchmarks:

Asset Class	Current Allocation 31 March 2019	Investment Manager/ product	Segregated / pooled	Active/ Passive	Benchmark and Target
UK/Global Equity	18.9	LCIV Baillie Gifford (Global Alpha Fund)	Pooled	Active	MSCI All Countries Index plus 2.5%
	7.5	Legal & General Investment Management	Pooled	Passive	FTSE All World Equity Index
	7.2	Legal & General Investment Management	Pooled	Passive	FTSE RAFI All World 3000 Index
	3.4	Legal & General Investment Management	Pooled	Passive	FTSE World Emerging Markets
Equities	**37.0**				
Multi Asset Strategy	12.0	LCIV Baillie Gifford (Diversified Growth Fund)	Pooled	Active	Capital growth at lower risk than equity markets
	4.5	GMO Global Real return (UCITS)	Pooled	Active	OECD CPI g7 plus 3 - 5%
	12.9	LCIV Ruffer	Pooled	Active	Absolute Return
Multi-asset	**29.4**				
Property	5.8	UBS	Pooled	Active	IPD All balanced (property) Fund's median +
Infrastructure	1.0	Stafford	Pooled	Active	CPI +5%% p.a. (net

Asset Class	Current Allocation 31 March 2019	Investment Manager/ product	Segregated / pooled	Active/ Passive	Benchmark and Target
					of fees)
	4.1	JPMorgan	Pooled	Active	CPI +5%% p.a. (net of fees)
Other	1.7	CBRE Global Property	Pooled	Active	CPI +5%% p.a. (net of fees)
Real assets	**12.6**				
Gilt/Investment Bonds	20..6	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%*
Other Bonds	0.4	Churchill	Pooled	Active	LIBOR + 4%
	Yet to be funded	Permira	Pooled	Active	LIBOR + 4%
Bonds and Cash	**21.0**				
TOTAL	**100.0**				

*0.75% prior to 1 November 2015

As at March 2019 the total value of assets with the LCIV is £321m (£313m 2017/18) which represents 45% (44% 2017/18) of assets under management. The London CIV has a business arrangement with LGIM to deliver the passive global mandate; this can be classified as being within the London CIV so the allocation increases to £453m (£417m 2017/18) (63%)

The Fund will continue to have ongoing discussions with the London CIV to progress the transition of assets onto the London CIV platform in accordance with the Ministry of Housing, Communities and Local Government (MHCLG) timelines.

Significant investment changes during 2018/19 were as follows:

- Following the appointment of Real Asset Managers for Infrastructure and Global Property in March 2018 the fund has commenced funding these mandates. To date these mandates have been funded from internal pension fund cash balances and drawdowns from one of the funds multi asset manager (GMO). Further funding will continue during 2019/2020.
- To retain exposure to emerging markets lost through disinvestments with GMO the Fund has also transferred cash to Legal and General Investment Management (LGIM) passive Emerging Market Fund.
- In August 2018 the Fund appointed two Private Debt Managers - Churchill and Permira. These mandates will be funded from drawdowns with the current bond manager. Churchill has commenced funding with Permira capital calls expected in the latter half of 2019.

The performance of the Fund is measured against a tactical and a strategic benchmark.

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. The strategic benchmark measures the extent to which the fund is meeting its longer term objective of reducing the funds deficit.

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.

The Fund uses the services of State Street Global Services (SSGS) Performance Services PLC (formerly known as WM Company) to provide comparative statistics on the performance of the Fund for its quarterly monitoring.

The overall net performance of the Fund as at 31 March 2019 against both benchmarks is shown below:

	1 year to 31.03.18 %	1 year to 31.03.19 %	3 Years to 31.03.19 %	5 years to 31.03.19 %
Fund Return	4.9	3.3	8.3	7.3
Tactical Benchmark	**2.6**	**5.7**	**6.9**	**6.7**
Performance	2.3	-2.3	1.3	0.5
Fund Return	4.9	3.3	8.3	7.3
Strategic Benchmark	**2.3**	**7.4**	**10.2**	**10.7**
Performance	2.5	-3.8	-1.7	-3.1

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

The current shortfall has arisen largely as a consequence of the historically low level of real interest rates which have driven up the value of index linked gilts (and consequently the level of the funds liabilities). The Funds steady outperformance against strategic benchmark over the previous two years came to an abrupt halt as index-linked gilt yields fell over the quarter, pushing liability valuations up, whilst the funds return seeking assets fell sharply.

The former (DCLG) Guidance on Preparing and Maintaining an Investment Strategy Statement (ISS) issued September 2016 relaxed the regulatory framework for scheme investments which also included the relaxation on reviewing investment manager performance.

In light of the above guidance, the Committee reviewed the reporting arrangements in June 2017 and agreed that only one fund manager will attend each Committee meeting, unless performance concerns override this. Managers in the London CIV are now monitored by them and the London CIV produce quarterly monitoring reports which are distributed to the Committee.

Cyclical coverage of manager monitoring is set out in **Annex B,** covering 2019/20 and 2020/21.

FUND GOVERNANCE STRUCTURE

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 terms of reference for the Committee are:

- To consider and agree the investment strategy and statement of investment principles (SIP) (now called 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

The membership of the Pensions Committee reflects the political balance of the Council and following the Local Elections held in May 2018 the structure of the Committee (those responsible for decision making during the year to 31 March 2019), are as follows:

Conservative Group:
Cllr John Crowder (Chair)
Cllr Viddy Persuad (From March 19)
Cllr Matt Sutton

Residents Group
Cllr Stephanie Nunn

North Havering Residents' Group
Cllr Martin Goode (Vice Chair March 2019)

Upminster & Cranham Residents' Group
Councillor Ron Ower

***Labour Group**
Vacant*

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

From 19 March 2019 meeting Cllr Viddy Persaud replaced Cllr Melvin Wallace

*Due to a Councillor changing political parties an adjustment was made to the political allocation of representatives who sit on the Pensions Committee from December 2018. This resulted in the Independent Residents Group losing one seat (Cllr David Durant) and the Labour Group gaining one seat (currently vacant).

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).

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.

From 1 November 2017, the London Borough of Havering delegated the pension administration service to Lancashire County Council (LCC) who has engaged the Local Pension Partnership (LPP) to undertake their pension's administration. The LPP 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.

Chief Executive	Andrew Blake-Herbert
Section 151 Officer	Jane West
Pensions Administration Management	Sarah Bryant Director of Exchequer & Transactional Services (oneSource)
Fund Administrator	Local Pension Partnership (LPP)
Pension Fund Manager (Finance)	Debbie Ford (oneSource)
Legal Advisers	London Borough of Havering Legal Services (oneSource) provide legal advice as necessary Bevan Brittan (Specialist Advice)
Fund Actuary	Hymans Robertson LLP
Fund Investment Advisers	Hymans Robertson LLP
Investment Managers	Royal London Asset Management (Investment Bonds) UBS (Property) Ruffer LLP (Multi Asset) (transferred to London CIV 21 June 2016) Legal & General Investment Management 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) Stafford Capital – Real Assets Infrastructure (from June 18) JP Morgan – Real Assets Infrastructure (from July18) CBRE – Real Assets Global Property (from August 19) Churchill Asset Management – Private Debt (from December 18) Permira Credit Solutions– Private Debt (from January 19)
Asset Pool Company	London Collective Investment Vehicle (London CIV)
Fund Custodians	State Street Global Services
Performance Measurement	State Street Global Services – Performance Services PLC (formerly WM Company) Pensions & Investment Research Consultants Limited (PIRC)
Bankers	National Westminster Bank PLC
Auditors	Ernst and Young LLP
AVC Providers	Prudential Standard Life

PENSION COMMITTEE MEETINGS 2018/19

The Committee met a number of times during 2018/19 and **Annex A** sets out the coverage of matters considered, but the key issues that arose in the period are shown below:

Major milestones and key issues considered by the Committee

- **Reviewed Fund Managers quarterly performance**
- **Fund Manager voting and Engagement Activity -** Noted the annual review of fund manager voting and engagement and agreed to receive training in the development of a Statement of Investment Beliefs
- **Reviewed performance of the Pension Fund's Custodians, Investment Advisor and Actuary.**
- **Noted results of the Public service Pensions Act 2013 – Section 13 GAD report**
- **Agreed appointment of two Private Debt Managers (Churchill and Permira)**
- **Interview and assessment of Investment Consultancy Services for Stage 2 Evaluation**
- **Noted Local Pension Board Annual report for the year ending March 2018**
- **Noted Pension Fund Accounts for the Year ending 31 March 2018**
- **Noted Annual Report for the year ending 31 March 2018**
- **Collective Investment Vehicle (CIV) -** The Committee received updates on the London CIV.

PENSION COMMITTEE MEETINGS 2019/20 AND ONWARDS

In addition to the annual cyclical work programme as shown in **Annex B** there are a number of key issues that are likely to be considered by the Pensions Committee in the coming year and beyond:

- ESG Investment Beliefs policy development
- London CIV Pooling progression/Continued transfer of assets to the London CIV
- Further development and implementation of the Investment Strategy
- Training and consideration of Currency Management
- MHCLG Investment Regulation changes as applicable
- Outcome of The Pension Regulator review
- Results of the 2019 Triennial Valuation
- Review of the Funding Strategy Statement
- Topical issues discussed as appropriate
- Continued training and development – induction of new members, where applicable, following

INTERNAL & EXTERNAL RESOURCES

The Pensions Committee is supported by the Administrating Authority's Finance and Administration services (oneSource) and the associated costs are therefore reimbursed to the Administrating 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.

Estimated costs for the forthcoming three years for Administration, Investment Management expenses and Governance & Oversight follow in this report.

Pensions Administration - From 1 November 2017 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.

Pensions Administration also includes a post for the Projects and Contracts Manager who monitors the pension's administration contract and ad hoc projects.

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

FINANCIAL ESTIMATES

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.

	2017/18 Actual £000	2018/19 Estimate £000	2018/19 Actual £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Administration & Processing	500	565	*770	570	570	570
Other Fees	12	8	5	20	20	20
Other Costs	20	30	26	30	30	30
TOTAL	**532**	**603**	**801**	**620**	**620**	**620**

***Includes one off agency costs and GMP reconciliation costs of £148k during 2018/19**

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.

	2017/18 Actual £000	2018/19 Estimate £000	2018/19 Actual £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Fund Manager Fees	3,188	3,261	3,895	3,900	3,900	3,900
Custodian Fees	20	20	23	25	25	25
Performance Measurement services	16	11	27	30	30	30
Transaction costs	122	-	358	360	360	360
TOTAL	**3,346**	**3,292**	***4,303**	**4,315**	**4,315**	**4,315**

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 2019/20 onwards
- *Increased management costs due to Fund manager sign up to transparent reporting of costs and new fund manager catch up fees (Stafford).

Governance and Oversight

This category captures all costs that fall outside the above 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.

	2017/18 Actual £000	2018/19 Estimate £000	2018/19 Actual £000	2019/20 Estimate £000	2020/21 Estimate £000	2021/22 Estimate £000
Financial Services	147	147	142	147	147	147
Actuarial Fees	36	50	20	50	25	25
Audit Fees	18	21	16	16	16	16
Member Training (inc. LPB)	1	10	4	10	10	10
Advisor Fees	89	50	71	65	65	65
London CIV	101	93	98	100	100	100
Local Pension Board	5	5	4	5	5	5
Pensions Committee	29	36	38	40	40	40
Other Fees	-	-	26	10	10	10
TOTAL	**426**	**412**	**419**	**443**	**418**	**418**
OVERALL MANAGEMENT TOTAL	**3,925**	**3,995**	**5,523**	**5,378**	**5,353**	**5,353**

TRAINING AND DEVELOPMENT STRATEGY

The Local Pension Board (LPB) has been in place since 25 March 2015.

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 Pensions Committee on the 24 November 2015 and presented to the Local Pension Board at its meeting on the 6 January 2016. The Training Strategy can be found in **Annex C.**

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. 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.

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

Long membership of the committee is encouraged in order to ensure that expertise is developed and maintained within. The Council recommend that the membership of the Pension Committee remain static for the life of the term in Council, unless exceptional circumstances require a change.

Maintaining expertise, experience and knowledge is a key focus for the committee in order to meet the "qualitative test" under **Markets in Financial Instrument Directive (MiFID 11).** Firms will 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 are capable of making their own investment decisions and have an understanding of the risks involved before a firm will permit election to professional status. All requests for election have been granted for existing investment service providers.

PROVISION OF TRAINING

A training budget has been agreed for the provision of training for £10,000 but this will be re-evaluated as appropriate. Training costs will be met from the Pension Fund.

The majority of training and development is cyclical in nature, spanning the four year membership of the committee. Associated training and development will be given when required which will be linked to the Pension Fund meeting cyclical coverage for 2019/20 as shown in **Annex B.**

In addition to the cyclical training and development 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. Special pension committee meetings will be arranged from time to time to discuss matters that fall outside of the cyclical meetings.

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

Members receive briefings and advice from the Fund's Investment adviser at each Committee meeting.

Members and Officers also attend seminars arranged by Fund Managers or other third parties who specialise in public sector pensions.

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 Head of Pensions and Treasury, Pension Fund Manager and /or Accountant also attends quarterly forum meetings with peers from other London Boroughs; this gives access to extensive opportunities of knowledge sharing and benchmarking data.

Officers within onesource Pensions teams also benefit from sharing of best practice

The London CIV runs periodic seminars to aid Officer and Committee member development.

Training and development took place during 2018/19 to ensure that Members of the Committee were fully briefed in the decisions they were taking.

Training logs are maintained and attendance and coverage can be found in **Annex D**.

The Pensions Regulator has launched an e-learning programme and this has been made available for members to use.

Training will be targeted as appropriate.

APPENDIX A

PENSIONS COMMITTEE MEETINGS HELD DURING 2018/19		ANNEX A
MONTH	**TOPIC**	**ATTENDED BY**
24 July 2018	• Noted Pension Fund Performance Monitoring for the quarter ending 31 March 2018, received presentations from Property Manager (UBS) • Noted Pension Fund Accounts for the year ending 31 March 2018. • Agreed the Pension Fund Annual Report for the year ending 31 March 2018. • Agreed the Business Plan/Annual Report on the work of the Pensions Committee 2016/17 • Noted Local Pension Board Annual Report for the year Ended 31 March 2018 • Approved the proposed Work Programme for the year to March 2019.	Cllr John Crowder (chair) Cllr Melvin Wallace(vice chair) Cllr Matt Sutton Cllr Ray Morgon (sub for Cllr Nunn) Cllr Ron Ower Cllr Martin Goode
20 August 2018 (Special meeting)	• Interview/Appointment of Investment Manager – Private Debt Interview/Appointment of Passive Equity Managers	Cllr John Crowder (chair) Cllr Melvin Wallace (vice chair) Cllr Matt Sutton
18 September 2018	• Noted Pension Fund Performance Monitoring for the quarter ending 30 June 2018, received presentations from passive equity manager (LGIM) • Noted Havering Colleges proposed Merger • Noted Guaranteed Minimum Pension (GMP) Reconciliation work	Cllr John Crowder (chair) Cllr Melvin Wallace(vice chair) Cllr Stephanie Nunn Cllr Martin Goode
13 November 2018	• Noted the views of officers on the performance of the Fund's Custodian for the period to September 2018. • Noted the views of officers on the performance of the Fund's Actuary for the period to September 2018. • Noted the views of officers on the performance of the Fund's Investment Advisor for the period to September 2018. • Considered and agreed changes as necessary to the Governance Compliance Statement • Agreed updates to Funding Strategy Statement • Agreed Communications Strategy for 2018 to 2021 • Noted Review of Risk Register • Noted results of the Whistle Blowing Annual review	Cllr John Crowder (chair) Cllr Melvin Wallace(vice chair) Cllr Matt Sutton Cllr Stephanie Nunn Cllr Martin Goode Cllr Ron Ower Andy Hampshire (GMB union Rep)
11 December 2018	• Noted the Pension Fund Performance Monitoring for the quarter ending 30 September 2018, received presentations from the Multi Asset Manager	Cllr John Crowder (chair) Cllr Melvin Wallace(vice chair)

PENSIONS COMMITTEE MEETINGS HELD DURING 2018/19		ANNEX A
MONTH	**TOPIC**	**ATTENDED BY**
	GMO. • Noted Local Government Pension Scheme charging policy for Havering • Noted the results of the Public Service Pensions Act 2013 – Section 13 GAD report • Noted the review of the Fund manager voting and engagement activity, including the responsible investment policy for the London CIV • Agreed the next steps in respect of developing future reviews of responsible investment monitoring, including development of a set of investment beliefs.	Cllr Matt Sutton Cllr Stephanie Nunn Cllr Martin Goode Cllr Ron Ower Cllr David Durant
21 February 2019 (Special meeting)	• Interview/Assessment of Investment Management Consultancy Services for Stage 2 Evaluation	Cllr John Crowder (chair) Cllr Viddy Persaud Cllr Stephanie Nunn Cllr Martin Goode Cllr Ron Ower Cllr David Durant John Giles (UNISON representative)
19 March 2019	• Noted the Pension Fund Performance Monitoring for the quarter ending 31 December 2018, received presentations from Ruffer Absolute Return Fund and the London CIV for both the Baillie Gifford Global Alpha Fund and the Diversified Growth Fund. • Noted the issue of Local Government Pension Scheme consultations for Asset pooling & Fair Deal, including discussions on items for inclusion in response to Asset pooling • Noted the review being undertaken by The Pensions Regulator. • Considered and agreed the next steps to finalise a formal statement of investment beliefs	Cllr Martin Goode (chair) Cllr Roger Ramsey (sub for Cllr Crowder) Cllr Stephanie Nunn Cllr Ron Ower Cllr Viddy Persaud

- Please note that three members constitute a quorum.
- Target dates for issuing agendas were met.

APPENDIX A

KEY REPORTING DATES 2019/20

ANNEX B

	24 JULY 2019	17 SEPTEMBER 2019	12 NOVEMBER 2019	10 DECEMBER 2019	17 MARCH 2020
Formal Committees with Members	▪ Overall Monitoring Report on Pension Fund to end of March 19 a) Royal London (Bonds) ▪ Business Plan/Report on the work of the Pensions Committee 2018/19 ▪ Pension Fund Accounts 18/19 ▪ Pension Fund Annual Report for 18/19	▪ Overall Monitoring Report on Pension Fund to end of June 19: a) UBS (Property)	▪ Annual review of Custodian ▪ Annual review of Adviser ▪ Annual review of Actuary ▪ Review of Governance Policy ▪ Whistleblowing Annual Assessment ▪ Risk Register Review	▪ Overall Monitoring Report on Pension Fund to end of September 19 a) Stafford (Infrastructure) ▪ Annual review of Fund Managers Voting & Engagement ▪ Triennial Valuation Reporting	▪ Overall Monitoring Report on Pension Fund to end of December 19: a) JP Morgan (Infrastructure)
Training	Associated Training	Associated Training	Associated Training	Associated Training	Associated Training

APPENDIX A

KEY REPORTING DATES 2020/21

ANNEX B (continued)

	JULY 2020	SEPTEMBER 2020	NOVEMBER 2020	DECEMBER 2020	MARCH 2021
Formal Committees with Members	▪ Overall Monitoring Report on Pension Fund to end of March 20 a) LCIV Ruffer (Absolute return) b) LCIV Baillie Gifford (DGF) & Global equities)	▪ Overall Monitoring Report on Pension Fund to end of June 20: a) CBRE(Global Property)	▪ Annual review of Custodian ▪ Annual review of Adviser ▪ Annual review of Actuary ▪ Review of Governance Policy ▪ Whistleblowing Annual Assessment ▪ Risk Register Review	▪ Overall Monitoring Report on Pension Fund to end of September 20 a) Churchill Nuveen (Private Debt) ▪	▪ Overall Monitoring Report on Pension Fund to end of December 20: a) Legal & General (passive equity)
Training	Associated Training	Associated Training	Associated Training	Associated Training	Associated Training

Contents

LGPS Knowledge & Skills Training Strategy

Introduction

This is the Training Strategy for the London Borough of Havering Pension Fund.

It sets out the strategy agreed by the Pension Committee and the Local Pension Board concerning the training and development of the members of the

- Pension Committee (the "Committee Members");
- members of the local pension board (the "Board members") and
- officers of the London Borough of Havering Pension Fund responsible for the management of the Fund (the "Officers").

The Training Strategy is established to aid the Committee Members in performing and developing personally in their individual roles and to equip them with the necessary skills and knowledge to challenge and act effectively within the decision making responsibility put upon them. A code of practice and a framework of knowledge and skills has been developed by CIPFA which LGPS Funds are expected to sign up to.

The Public Service Pensions Act 2013 also requires London Borough of Havering Council to set up a Local Pension Board. The Act requires the Pensions Regulator to issue a code of practice relating to the requirements of the knowledge and understanding of Board members. Guidance on the knowledge and understanding of Local Pension Boards in the LGPS has also been issued by the Shadow Scheme Advisory Board in January 2015. Although this has not been designated as statutory guidance it should be held as good guidance and should be acknowledged.

The objective of the CIPFA knowledge and skills framework is to determine and set out the knowledge and skills sufficient to enable the effective analysis and challenge of decisions made by officers and advisers to the Pension Committee whilst the guidance for local pension boards issued by the Shadow Scheme Advisory Board is to assist the individual Board members in undertaking their role to assist the Scheme Manager (the London Borough of Havering Pension Fund) in the effective governance and administration of the local government pension scheme.

The training desired to achieve the additional knowledge and skills will be contained in the appropriate training plan(s)

Strategy Objectives

The Fund objectives relating to knowledge and skills are to:

- Ensure the pension fund is managed and its services delivered by people who have the appropriate knowledge and expertise;
- Ensure the pension fund is effectively governed and administered;
- Act with integrity and be accountable to our stakeholders for our decisions, ensuring they are robust and are well based and regulatory requirements or guidance of the Pensions Regulator, the Scheme Advisory Board and the Secretary of State for Communities and Local Government are met.

To achieve these objectives –

The Committee Members require an understanding of:

- Their responsibilities as an administering authority of a local government pension fund;
- The fundamental requirements relating to pension fund investments;

- The operation and administration of the pension fund;
- Controlling and monitoring the funding level; and
- Taking effective decisions on the management of the London Borough of Havering Pension Fund.

Board members are conversant with–

- The Regulations and any other regulations governing the LGPS
- Any document recording policy about the administration of the Fund
- and have knowledge and understanding of:
- The law relating to pensions; and
- Such other matters as may be prescribed

To assist in achieving these objectives, the Fund will aim for full compliance with the CIPFA Knowledge and Skills Framework and Code of Practice to meet the skill set within that Framework. Attention will also be given to the guidance issued by the Shadow Scheme Advisory Board, the Pensions Regulator and guidance issued by the Secretary of State. So far as is possible, targeted training will also be provided that is timely and directly relevant to the Committee's and Board's activities as set out in the Fund's 3-year business plan. For example, funding training will be given immediately preceding the Committee or Board meeting that discusses the Funding Strategy Statement.

Board members will receive induction training to cover the role of a local pension board and understand the duties and obligations of a LGPS administering authority, including funding and investment matters.

All those with decision making responsibility in relation to LGPS pension matters and Board members will:

- have their knowledge measured and assessed;
- receive appropriate training to fill any knowledge gaps identified; and
- seek to maintain their knowledge.

Application of the training strategy

This Training Strategy will apply to all Committee Members and representatives with a role on the Pension Committee and to all the Board members. Other officers involved in the management and administration of the Fund will have their own sectional and personal training plans and career development objectives.

Purpose of training

The purpose of training is to:

- Equip people with the necessary skills and knowledge to be competent in their role;
- Support effective and robust decision making;
- Provide individuals with integrity;
- Meet the required needs in relation to the Fund's objectives.

Summary

This training strategy:

- Assists in meeting the Fund's objectives;
- Meets the business plan;

- Will assist in achieving delivery of effective governance and management;
- Will equip those responsible with appropriate knowledge and skills;
- Promote ongoing development of the decision makers;
- Lead to demonstrating compliance with the CIPFA Knowledge and Skills Framework;
- Lead to demonstrating with statutory requirements and associated guidance

Meeting the business plan

Timely and relevant

There will be times in the year when different circumstances will require specific training. For example, funding training can be provided just prior to the Committee meeting that discusses the Funding Strategy Statement.

It is vital that training is relevant to any skills gap or business need and training should be delivered in a manner that fits with the business plan.

The training plan will therefore be regularly reviewed to ensure that training will be delivered where necessary to meet immediate needs to fill knowledge gaps.

Delivery of Training

Training resources

Consideration will be given to various training resources available in delivering training to the Committee Members, Board members or officers in order to achieve efficiencies. These may include but are not restricted to:

For Pension Committee and Local Pension Board Members	For Officers
• In-house* • Self-improvement and familiarisation with regulations and documents • The Pension Regulator's e-learning programme • Attending courses, seminars and external events • Internally developed training days and pre/post Committee/Board sessions* • Shared training with other Funds or Frameworks* • Regular updates from officers and/or advisers* • Circulated reading material	• Desktop / work based training • Attending courses, seminars and external events • Training for qualifications from recognised professional bodies (e.g. CIPFA, CIPP, PMI) • Internally developed sessions • Shared training with other Funds or Frameworks • Circulated reading material

*These may be shared training events for Pension Committee and Local Pension Board members

Training Plans

To be effective, training must be recognised as a continual process and will be centred on 3 key points

- The individual
- The general pensions environment
- Coping with change and hot topics

Training Plans will be developed at least on an annual basis, as per the Business Plan. These will be updated as required taking account of the identification of any knowledge gaps, changes in legislation, Fund events (e.g the triennial valuation) and receipt of updated guidance.

Induction Training will be provided for all new officers with pensions responsibilities, members of the Pension Committee and Local Pension Board. This will involve covering the requirements of the Training Strategy alongside guidance and information on the requirements of their roles.

External Events

As information on events becomes available, members will be advised by email.

After attendance at an external event, Committee Members and Board members will be expected to provide verbal feedback at the following Pension Committee/Board meeting covering the following points:

- Their view on the value of the event and the merit, if any, of attendance;
- A summary of the key learning points gained from attending the event; and
- Recommendations of any subject matters at the event in relation to which training would be beneficial to other Pension Board members.

Officers attending external events will be expected to report to their direct line manager with feedback covering the following points:

- Their view on value of the event and the merit, if any, of attendance;
- A summary of the key learning points gained from attending the event; and
- Recommendations of any subject matters at the event in relation to which training would be beneficial to other officers.

On-going development

Maintaining knowledge

In addition to undertaking on-going assessment in order to measure knowledge and skills against the CIPFA requirements and identify knowledge gaps, Officers, Committee Members and Board members are expected to maintain their knowledge of on-going developments and issues through attendance at external events and seminars.

Appropriate attendance at events for representatives of the Pension Committee and Board will be agreed by the appropriate chairman.

If an event occurs and appropriate, members will be advised by email.

The Committee/Board will approve an appropriate level of credits for attendance at an event in relation to the type of event, its content and relevance to knowledge maintenance.

In any event, attendance at events/seminars (which may include some internal training sessions) that are not direct training courses focussed on the CIPFA Knowledge Skills Framework or issued guidance but enhance and improve related on-going and emerging pension knowledge will count as one credit for each session of up to a half day.

Where the Committee/Board members have work related experience or previous knowledge through former membership of a Committee or Board will be able to count this as credits in their own assessment and score accordingly.

There is a practical recognition that it will take a newly appointed member a reasonable period to attain the required full level of knowledge and understanding and hence the training and continued development will span the duration of the role.

Owing to the changing world of pensions, it will also be necessary to have ad hoc training on emerging issues or on a specific subject on which a decision is to be made by the Pension Committee in the near future or is subject to review by the Local Pension Board. These will also count as credits in maintaining knowledge.

As a measure of training given or knowledge level officers, Committee Members and Board members are expected to have a minimum level of training credits. These are as follows -

Relevant Group	Knowledge Skills - level of attainment	The expected minimum level of credits over the 4 year term of office
Officers	Own sectional and personal development objectives	Own sectional and personal development objectives
Pension Committee and Local Pension Board Members	32 credits	8 credits

These will be measured and monitored annually by Pension Fund Accountant and reported in the Pension Fund Annual Report. Please see the appendix Knowledge and Skills – self assessment of training needs for basis of scoring.

CIPFA Requirements

CIPFA Knowledge & Skills Framework

In January 2010 CIPFA launched technical guidance for Elected Representatives on Pension Committees and non-executives in the public sector within a knowledge and skills framework. The Framework covers six areas of knowledge identified as the core requirements:

- Pensions legislative and governance context;
- Pension accounting and auditing standards;
- Financial services procurement and relationship development;
- Investment performance and risk management;
- Financial markets and products knowledge; and
- Actuarial methods, standards and practice.

The Knowledge and Skills Framework sets the skill set for those responsible for pension scheme financial management and decision making under each of the above areas in relation to understanding and awareness of regulations, workings and risk in managing LGPS Funds.

CIPFA's Code of Practice on Public Sector Pensions Finance, Knowledge and Skills (the "Code of Practice")

First published in October 2011 and redrafted in July 2013, CIPFA's Code of Practice embeds the requirements for the adequacy, acquisition, retention and maintenance of appropriate knowledge and skills required. It recommends (amongst other things) that LGPS administering authorities:

- formally adopt the CIPFA Knowledge and Skills Framework in its knowledge and skills statement;
- ensure the appropriate policies and procedures are put in place to meet the requirements of the Framework (or an alternative training programme);
- publicly report how these arrangements have been put into practice each year.

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

Guidance from the Scheme Advisory Board

General Principles

The Shadow Scheme Advisory Board has taken note of the regulatory requirements and the principles of the Pension Regulator's code of practice and published in January 2015 guidance in a local government context for administering authorities to support them in establishing their local pension board and this includes a section to enable it to help Board members to meet their knowledge and understanding obligations.

Knowledge and understanding must be considered in the light of the role of a Local Pension Board and the London Borough of Havering will make appropriate training available to assist and support Board members in undertaking their role.

Pension Committee Members

Although the CIPFA knowledge and skills framework complements the code of practice that should be adopted by administering authorities there is no legal requirement for knowledge and understanding for members of a Pension Committee. However it will be seen as good practice and governance if members of a Pension Committee use the knowledge and skills requirements set at a similar benchmark as the Local Pension Board.

Degree of Knowledge and Understanding

The role of the Local Pension Board is to assist the administering authority. To fulfil this role, Board members should have sufficient knowledge and understanding to challenge failure to comply with regulations, any other legislation or professional advice relating to the governance and administration of the LGPS and/or statutory guidance or codes of practice.

Board members should understand the regulatory structure of the LGPS and the documentary recording of policies around the administration of the London Borough of Havering Fund in enough detail to know where they are relevant and where it will apply.

Acquiring, Reviewing and Updating Knowledge and Understanding

Board members should commit sufficient time in their learning and development and be aware their responsibilities immediately they take up their position. London Borough of Havering will therefore provide induction training for all new Board members which will also be available to new Committee Members.

Flexibility

It is recognised that a rigid training plan can frustrate knowledge attainment when it is required for a particular purpose or there is a change in pension's law or new responsibilities are required of Board members. Learning programmes will therefore be flexible to deliver the appropriate level of detail required.

Training records and certification

Progress and achievement

Personalised training plans will be used to document and address any knowledge gaps and update areas of learning where required and assist in the acquisition of new areas of knowledge in the event of change.

Progress and achievement will be certificated at least on an annual basis individually to all Committee Members, Board members and officers. These will detail:

- The current assessment of an individual's acquired knowledge;
- Their progress against achieving the credits from other internal/external training or events; and
- All training courses and events attended by them to date.

Risk

Risk Management

The compliance and delivery of this training strategy is at risk in the event of –

- Frequent changes in membership of the Pension Committee or Pension Board
- Poor individual commitment
- Resources not being available
- Poor standards of training
- Inappropriate training plans

These risks will be monitored by officers within the scope of this training strategy and be reported where appropriate.

Budget

Cost

A training budget will be agreed and costs will be met from the Pension Fund.

APPENDIX A

PENSIONS COMMITTEE MEMBER TRAINING 2018/19

ANNEX D

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
3 July 2018	Peter Worth – Understanding the role of the Pensions Committee	Town Hall	KSF 1	Paid for by OneSource – to be recharged to Havering	Cllr John Crowder (Chair) Cllr Melvin Wallace (Vice-Chair) Cllr Roger Ramsey Cllr Martin Goode (also Chair Audit cttee) Cllr Ron Ower Cllr Matt Sutton (also Vice- Chair Audit cttee)
24 July 2018	Officer - New Councillor Induction • plus Hymans "A brief Guide to the LGPS'	Town Hall	ALL	Officer Time	Cllr Ray Morgon Cllr Ron Ower
24 July 2018	Officer - New Councillor Induction – distribution of slides only	Town Hall	ALL	Officer Time	Cllr Matt Sutton
24 July 2018	Officers - Pension Fund Accounts 17/18 Briefing covered: • Overview of the Pension Fund Accounts	Town Hall	KSF 2	Officer Time	Cllr John Crowder (chair) Cllr Melvin Wallace (vice-chair) Cllr Martin Goode Cllr Ron Ower Cllr Ray Morgon Cllr Jan Sargent Cllr Gerry O'Sullivan Cllr David Durant Cllr Viddy Persuad (part)

APPENDIX A

DATE	TOPIC COVERED	LOCATION	KSF	COST	ATTENDED BY
20 August 2018	Hymans – Direct Corporate Lending, covered: • What is Direct corporate Lending • Why we are investing in this asset class • How to get exposure • bFinance - covered the manager selection process	Town Hall – Prior to Special Pensions Committee meeting	KSF 3 KSF 5	Part of contract	Cllr John Crowder (chair) Cllr Melvin Wallace (vice-chair) Andy Hampshire (GMB union- employee rep)
15 November 2018	SPS Conferences Local Authority - Pension Fund Investment Strategies: • Topical Issues • Income from Property & Infrastructure- planning for cash flow negativity • Management of Assets – improving cost transparency • • LGPS Perspectives -current issues	Le Meridien Hotel, Picadilly, W1	KSF 5	Free	Cllr Stephanie Nunn
11 December 2018	Officer - New Councillor Induction	Library	ALL	Officer Time	Cllr David Durant
11 December 2018	Hymans-ESG :Introductory Training: • Introduction • Regulation • Application and Action • • Next steps: establishing a set of beliefs:	Town Hall – Prior to Pensions Committee meeting	KSF 1 KSF 4 KSF 5	Part of contract	Cllr John Crowder (chair) Cllr Melvin Wallace (vice-chair) Cllr Ron Ower Cllr Stephanie Nunn Cllr David Durant Cllr Matt Sutton (part)

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