

## Pension Fund

### Introduction

The Havering Pension Fund is part of the Local Government Pension Scheme and is administered by the London Borough of Havering. Responsibility for management of the Pension Fund has been delegated to the Pensions Committee and the day to day operations of the fund have been delegated to the Group Director Resources.

The following description of the scheme is a summary only. For more details on the operation of the pension fund, reference should be made to the Havering Pension Fund Annual Report 2013/14 and the underlying statutory powers underpinning the scheme, namely the Superannuation Act 1972 and the Local Government Pension Scheme (LGPS) Regulations.

The pension fund is a contributory final salary scheme and operates as a funded, defined benefits scheme which provides benefits for employees (excluding teachers) which include retirement pensions, spouse, civil partners and children's pensions, death grants and other lump sum payments.

A new LGPS came into force from the 1<sup>st</sup> April 2014 which will see retirement benefits based on a Career Average Revalued Earnings (CARE) scheme.

The Fund is financed by contributions from employees, employers and from profits, interest and dividends on its investments.

### Employers in the Fund

Organisations participating in the fund include:

Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund.

Admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

Designated bodies, which are non-community schools, whose employer has changed from the authority to a Board of Governors. Designated body status allows continued membership in the LGPS for non-teaching staff at non community schools.

During 2013/14 three schools converted to Academies and Sodexo Catering and Breyers Group were admitted as new employers to the fund.

The other employers in the Pension Fund are as follows:

#### Scheduled Bodies:

Havering College of Further Education  
Havering Sixth Form College

### Secondary Schools

Drapers Academy (Academy from 1 September 2010)  
Abbs Cross School (Academy from 1 April 2011)  
Brittons School & Technology College (Academy from 1 April 2011)  
Coopers' Company & Coborn School (Academy from 1 April 11)  
The Albany School (Academy from 1 August 2011)  
Campion School (Academy from 1 August 2011)  
Hall Mead Secondary School (Academy from 1 August 2011)  
Sacred Heart of Mary's Girl's School (Academy from 1 August 2011)  
St Edwards CE Secondary Comprehensive (Academy from 1 August 2011)  
Emerson Park (Academy from 1 September 2011)  
Redden Court (Academy from 1 September 2011)  
Frances Bardsley School for Girls (Academy from 1 July 2012)  
Bower Park (Academy from 1 February 2013)  
Chafford School (Academy from 1 November 2013)

### Primary School

Upminster Junior School (Academy from 1 November 2012)  
Upminster Infant School (Academy from 1 November 2012)  
Langtons Junior (Academy from 1 April 2013)  
Pinewood Oasis (Academy from 1 October 2013)

### Admitted Bodies:

Havering Citizens Advice Bureau  
Mears (November 12 – took over Morrison's)  
Sports and Leisure Management Ltd – Fitness and Health  
Sports and Leisure Management Ltd – Charitable Trust  
KGB Cleaners  
Volker (joined 1 November 2011- Replaced May Gurney)  
Family Mosaic (joined 1 November 2012)  
Sodexo Catering (joined 1 January 2014 –pending legal agreement)  
Breyers Group (joined 1 March 2014 – pending legal agreement)

### Designated Bodies:

#### Trust Schools

Corbets Tey Special School

#### Foundation Schools

Marshall Park (Foundation from 1 September 2011)  
Royal Liberty  
The Sanders Draper School  
The Mawney Primary School

#### Voluntary Aided Schools

St Alban's Catholic Primary  
St Edwards CE Primary  
St Joseph's RC Primary  
St Mary's RC Primary  
St Patrick's Catholic Primary School  
St Peter's Catholic Primary School  
St Ursula's RC Junior School  
St Ursula's RC Infant School  
La Salette RC Primary School

**Membership**

The membership of the Pension Fund is as follows:

	<b>As at 31<sup>st</sup> March 2014</b>	<b>As at 31<sup>st</sup> March 2013</b>
<b>Contributors</b>		
Havering	4,756	4,501
Scheduled bodies	1,301	1,085
Admitted bodies	149	169
<b>Contributor Total</b>	<b>6,206</b>	<b>5,755</b>
<b>Deferred pensioners:</b>		
Havering	4272	4,178
Scheduled bodies	557	483
Admitted bodies	45	41
<b>Deferred Total</b>	<b>4,874</b>	<b>4,702</b>
<b>Pensioners and Dependants:</b>		
Havering	5,347	5,204
Scheduled bodies	237	204
Admitted bodies	57	45
<b>Pensioners &amp; Dependants Total</b>	<b>5,641</b>	<b>5,453</b>
<b>TOTAL</b>	<b>16,721</b>	<b>15,910</b>

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

During 2013/14 the final implementation of the investment strategy review was implemented with the two appointed Multi Asset Managers commencing trading in December 2013. The mandate with Standard Life was terminated and the proceeds transferred to the Barings Diversified Asset Allocation Fund (DAAF). The holdings with State Street Global Assets were reduced and the proceeds transferred to the Baillie Gifford Diversified Fund (DGF). Additional contributions were made by the London Borough of Havering and this has been temporarily invested with State Street Global Assets pending allocation to a Local infrastructure investment.

The fund managers and the market value of assets under their management as at 31 March 2014 were as follows

**Investment Arrangements**

Value 31 March 2013		Manager	Mandate	Value 31 March 2014	
£000	%			£000	%
85,693	18.7	Standard Life	UK Equities	-	-
98,302	21.5	Royal London	Investment Grade Bonds	99,454	19.86
22,471	4.9	UBS	Property	23,166	4.63
64,531	14.1	Ruffer	Absolute Return	64,853	12.95
109,991	24.1	State Street Global Assets	Passive UK/Global Equities	46,634	9.31
-	-	State Street Global Assets	Sterling Liquidity Fund	11,547	2.31
76,297	16.7	Baillie Gifford	Pooled Global Equities	85,594	17.09
-	-	Barings DAAF	Multi Asset	97,978	19.57
-	-	Baillie Gifford DGF	Multi Asset	71,029	14.18
48	0	Other		521	0.10
<b>457,333</b>	<b>100</b>	<b>Total Fund</b>		<b>500,776</b>	<b>100</b>

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

## Performance

Havering Pension Fund uses the services of The WM Company to provide comparative statistics on the performance of this Fund. The performance of the Fund is measured against a tactical and a strategic benchmark. The tactical benchmark is a combination of all the individual benchmarks set for each manager. The strategic benchmark for the overall fund is a liability benchmark of FTSE A Gilts over 15 years plus 2.9% (net of fees) p.a. The main factor in meeting the strategic benchmark is market performance.

In 2013/14, the overall return on the Fund's investments was 7.0% (2012/13 14.4%). This represented an out performance of 1.5% against the tactical benchmark (2012/13 outperformance of 1.1%) and an out performance of 7.0% against the strategic benchmark (2012/13 outperformance 2.9%).

The longer term performance is as follows:

	<b>3 years to 31.3.14 %</b>	<b>5 years to 31.3.14 %</b>
<b>Fund return</b>	<b>8.4</b>	<b>13.4</b>
Tactical Benchmark	7.7	12.8
<b>Performance</b>	<b>0.7</b>	<b>0.5</b>
<b>Fund return</b>	<b>8.4</b>	<b>13.4</b>
Strategic benchmark	11.7	9.5
<b>Performance</b>	<b>(2.9)</b>	<b>3.5</b>

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

Pension Fund Account for the year ended 31<sup>st</sup> March 2014

2012/13 £000		Note	2013/14 £000
<b>Contributions and benefits</b>			
30,222	Contributions	3	45,007
3,706	Transfers in from other pension funds	4	2,258
<b>33,928</b>			<b>47,265</b>
(31,272)	Benefits	5	(32,387)
(2,423)	Payments to and on account of leavers	6	(1,129)
(632)	Administration expenses	7	(783)
<b>(34,327)</b>			<b>(34,299)</b>
<b>(399)</b>	<b>Net (withdrawals) / additions from dealings with members</b>		<b>12,966</b>
<b>Returns on Investments</b>			
(1,147)	Investment Management Expenses	8	(1,228)
9,518	Investment income	9	9,279
49,098	Profit and losses on disposal of investments and changes in the market value of investments	10	24,427
<b>57,469</b>	<b>Net returns on investments</b>		<b>32,478</b>
<b>57,070</b>	<b>Net Increase in the net assets available for benefits during the year</b>		<b>45,444</b>
403,505	Net assets of the Fund at start of year		460,575
<b>460,575</b>	<b>Net assets of the Fund at end of year</b>		<b>506,019</b>

<b>Net Asset Statement as at 31 March</b>			
2013 £000		Note	2014 £000
459,162	Investment Assets	11	501,812
(1,829)	Investment Liabilities	11	(1,036)
3,709	Current Assets	12	7,854
(467)	Current Liabilities	13	(2,611)
<b>460,575</b>	<b>Net assets of the fund available to fund benefits at end of the year</b>		<b>506,019</b>

The financial statements summarise the transactions of the Fund and the net assets of the Fund. They do not take account of obligations to pay pensions and other benefits which fall due after the financial year end. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard IAS19 basis is disclosed at Note 20 of these accounts.

## Notes to the Pension Fund

### 1. Basis of Preparation

The Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting 2013/14 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

### 2. Summary of Significant Accounting Policies

#### Fund Account - Income

##### (a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate. This is then broken down to show the amount allocated for the deficit funding (past service costs).

Pension strain contributions (augmentation) are accounted for in the period in which the liability arises.

##### (b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see notes 4 and 6)

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

##### (c) Investment Income

###### *i) Interest income*

Interest income is recognised in the fund as it accrues.

###### *ii) Dividend income*

Dividend income is recognised on the date the shares are quoted as ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as an Investment asset.

###### *iii) Distribution from pooled funds*

Distributions from pooled funds are recognised at the date of issue.

###### *iv) Property-related income*

Property related income consists primarily of rental income and are recognised at the date of issue.

##### *v) Movement in the net market value of investments*

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

#### Fund Account – expense items

##### (d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts unpaid are disclosed in the net assets statement as current liabilities.

##### (e) Taxation

The fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

##### (f) Administrative expenses

All administrative expenses are accounted for on an accruals basis. The majority of staff costs of the pensions administration team have been charged to the scheme. Management, accommodation and other overheads are apportioned to the fund in accordance with Council policy.

##### (g) Investment management expenses

All investment management expenses are accounted for on an accruals basis.

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

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

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

**Net Assets Statement****(h) Financial assets**

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

The values of investments as shown in the net assets statement have been determined as follows:

**(i) Market-quoted investments**

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.

**(ii) Fixed interest securities**

Fixed interest securities are recorded at net market value based on their current yields.

**(iii) Unquoted investments**

The fair value of investments for which market quotations are not readily available is determined as follows:

- Investments in private equity funds are valued on the fund's share of the net assets in the private equity fund.

**(iv) Pooled investment vehicles**

Pooled investment vehicles are valued at closing bid price if both the bid and offer prices are published; or if single priced, at the closing single price.

**(i) 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

**(j) Derivatives**

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in the change in market value.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract was matched at the year-end with an equal and opposite contract.

**(k) Cash and cash equivalents**

Cash comprises cash in hand.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

**(l) Financial Liabilities**

The fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

**(m) Actuarial present value of promised retirement benefits**

The actuarial present value of promised benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS19 and relevant actuarial standards.

**(n) Additional Voluntary contributions**

AVC's are not included in the accounts in accordance with section 492) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 3)

**Stock Lending**

We do not carry out stock lending directly. We are investors of a pooled fund with the passive equity manager, State Street Global Assets, who carry out stock lending as part of the funds activities. It is not possible to allocate a share of the stock lending activity to individual fund members. The lending programme is managed by State Street Securities Finance (SSSF), a division of State Street's Global Markets area. At present, lending is collateralised by non-cash collateral and marked to market on a daily basis. Revenue generated from securities is allocated 60% to the pooled fund in respect of investors and 40% to State Street, which pays all costs associated with the lending programme

**3. Contributions**

	2013/14 £000	2012/13 £000
<b>Employers</b>		
<b>Normal:</b>		
Havering	11,941	11,053
Scheduled Bodies	3,672	3,519
Admitted Bodies	681	572
<b>Deficit funding:</b>		
Havering	21,590	8,647
<b>Augmentation:</b>		
Havering	493	204
Scheduled Bodies	77	19
Admitted Bodies	20	0
<b>Employer Total</b>	<b>38,474</b>	<b>24,014</b>
<b>Members</b>		
<b>Normal:</b>		
Havering	5,154	4,870
Scheduled bodies	1,113	1,094
Admitted bodies	190	161
<b>Additional contributions:</b>		
Havering	66	66
Scheduled bodies	9	16
Admitted bodies	1	1
<b>Members Total</b>	<b>6,533</b>	<b>6,208</b>
	<b>45,007</b>	<b>30,222</b>

**Additional Voluntary Contributions (AVC's)**

<i>AVC Provider</i>	Market Value 2013/14 £000	Market Value 2012/13 £000
<b>Prudential</b>	717	797
<b>Standard Life</b>	145	162

Some employees made additional voluntary contributions (AVC's) of £62,167 (£64,785 12/13) excluded from these statements. These are deducted from the payroll and forwarded to the stakeholder pension schemes provided by the Prudential and Standard Life. The amounts forwarded during 2013/14 were £48,592 (£54,571 12/13) to the Prudential and £13,575 (£10,214 12/13) to Standard Life.

**4. Transfers in from other pension funds**

	2013/14 £000	2012/13 £000
Individual transfers in from other schemes	2,258	3,706

**5. Benefits**

	2013/14 £000	2012/13 £000
<b>Pensions</b>		
Havering	24,975	23,675
Scheduled Bodies	664	641
Admitted Bodies	431	384
<b>Pension Total</b>	<b>26,070</b>	<b>24,700</b>
<b>Commutation &amp; Lump Sum Retirements</b>		
Havering	5,060	4,784
Scheduled Bodies	472	339
Admitted Bodies	343	178
<b>Commutation Total</b>	<b>5,875</b>	<b>5,301</b>
<b>Lump sum death benefits</b>		
Havering	380	1,093
Scheduled Bodies	42	102
Admitted Bodies	20	76
<b>Death Benefits Total</b>	<b>442</b>	<b>1,271</b>
	<b>32,387</b>	<b>31,272</b>

**6. Payments To and On Account of leavers**

	2013/14 £000	2012/13 £000
Refunds to members leaving service	2	1
Individual transfers to other schemes	1,127	2,422
	<b>1,129</b>	<b>2,423</b>

**7. Administrative Expenses**

	2013/14 £000	2012/13 £000
Administration & Processing	693	566
Actuarial Fees	52	30
Audit Fees	21	21
Other Fees & Expenses	17	15
	<b>783</b>	<b>632</b>

**8. Investment management expenses**

	2013/14 £000	2012/13 £000
Administration, management and custody	1,132	1,063
Performance measurement services	13	12
Other Advisory Fees	83	72
	<b>1,228</b>	<b>1,147</b>

**9. Investment Income**

	<b>2013/14</b>	<b>2012/13</b>
	<b>£000</b>	<b>£000</b>
Equity dividend	2,994	3,362
Fixed Interest securities	*3,844	**3,663
Pooled property income	1,291	1,421
Foreign Exchange Profits	950	978
Interest on Cash & Deposits	86	12
Other income	114	82
<b>Total Income</b>	<b>9,279</b>	<b>9,518</b>

\* Income includes Index linked Interest of £464k

\*\* Income includes Index Linked Interest of £404k

**10 (a). Reconciliation of movements in investments & derivatives 2013/14**

	<b>Market Value at 31st March 2013</b>	<b>Purchases during the year and derivative payments</b>	<b>Sales during the year and derivative receipts</b>	<b>Change in Market Value during the year</b>	<b>Cash &amp; Other Movements</b>	<b>Market Value at 31st March 2014</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Equities	107,401	29,913	(122,847)	10,253	0	24,720
Fixed interest Securities	65,506	58,535	(54,397)	(1,562)	0	68,082
Index-linked Securities	53,541	160,203	(157,261)	(2,839)	0	53,644
Pooled Investment Vehicles	222,996	169,946	(5,005)	18,083	(58,500)	347,520
Derivatives	(387)	238,342	(238,342)	496	0	109
Cash instruments	1,055	10,052	(11,107)	0	0	0
Cash deposits (fund managers)	5,719	0	0	0	232	5,951
	<b>455,831</b>	<b>666,991</b>	<b>(588,959)</b>	<b>24,431</b>	<b>(58,268)</b>	<b>500,026</b>
Other Investment Balances	1,502			(4)	(748)	750
	<b>457,333</b>	<b>666,991</b>	<b>(588,959)</b>	<b>24,427</b>	<b>(59,016)</b>	<b>500,776</b>

**10 (b). Reconciliation of movements in investments & derivatives 2012/13**

	<b>Market Value at 31st March 2012</b>	<b>Purchases during the year and derivative payments</b>	<b>Sales during the year and derivative receipts</b>	<b>Change in Market Value during the year</b>	<b>Cash &amp; Other Movements</b>	<b>Market Value at 31st March 2013</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Equities	104,209	92,538	(69,656)	11,644	(31,334)	107,401
Fixed interest Securities	70,854	75,981	(85,351)	5,491	(1,469)	65,506
Index-linked Securities	46,660	173,141	(172,307)	4,578	1,469	53,541
Pooled Investment Vehicles	175,456	7,787	(922)	28,284	12,391	222,996
Derivatives	516	217,108	(217,108)	(903)	-	(387)
Cash instruments	673	9,452	(9,070)	-	-	1,055
Cash deposits (fund managers)	3,231	-	-	-	2,488	5,719
	<b>401,599</b>	<b>576,007</b>	<b>(554,414)</b>	<b>49,094</b>	<b>(16,455)</b>	<b>455,831</b>
Other Investment Balances	720	-	-	4	778	1,502
	<b>402,319</b>	<b>576,007</b>	<b>(554,414)</b>	<b>49,098</b>	<b>(15,677)</b>	<b>457,333</b>

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

The cash and other movements include assets that were transferred between fund managers as part of the investment restructuring.

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £382k, including transition costs (2012/13 £318k). In addition to the transaction costs disclosed above, indirect costs are incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

## 11. Analysis of investments

	2013/14 £000	2012/13 £000
<b>Investment Assets</b>		
<b>Equities</b>		
UK Quoted	6,707	89,525
Overseas quoted	18,013	17,876
	<b>24,720</b>	<b>107,401</b>
<b>Fixed Interest Securities</b>		
UK Public sector	12,535	7,512
UK Private (corporate)	55,547	56,197
Overseas Public sector	0	1,797
	<b>68,082</b>	<b>65,506</b>
<b>Index-Linked Securities</b>		
UK Public sector	41,558	40,681
UK Private (corporate)	642	660
Overseas Public sector	11,444	12,200
	<b>53,644</b>	<b>53,541</b>
<b>Derivative Contracts</b>		
Forward FX Contracts	183	130
	<b>183</b>	<b>130</b>
<b>Pooled Investment Vehicles</b>		
<b>UK Managed Funds</b>		
UK Quoted	322,366	199,566
UK Unquoted	16	20
Overseas	696	620
Property	1,554	1,248
<b>UK Unit Trust</b>		
UK Property	22,888	21,542
	<b>347,520</b>	<b>222,996</b>
<b>Cash Instruments</b>		
UK	0	1,055
	<b>0</b>	<b>1,055</b>
<b>Cash Deposits</b>		
Managers	5,951	5,719
	<b>5,951</b>	<b>5,719</b>
Outstanding Sales	344	816
Investment Income	1,178	1,160
Outstanding dividend and recoverable withholding tax	190	836
Investment Income due	-	2
	<b>1,712</b>	<b>2,814</b>
<b>Total Investment Assets</b>	<b>501,812</b>	<b>459,162</b>

## 11. Analysis of investments (Cont'd)

	2013/14 £000	2012/13 £000
<b>Investment Liabilities</b>		
<b>Derivative Contracts</b>		
Forward FX Contracts	(74)	(517)
Outstanding purchases	(960)	(1,312)
Investment Income Due	(2)	-
<b>Total Investment Liabilities</b>	<b>(1,036)</b>	<b>(1,829)</b>
<b>Total Net Investments</b>	<b>500,776</b>	<b>457,333</b>

## 12. Current Assets

	2013/14 £000	2012/13 £000
Pension Grants	8	9
Contributions due from Employers	184	168
Contributions due from members	71	58
Cash deposit with LB Havering	7,591	3,474
<b>Current Assets</b>	<b>7,854</b>	<b>3,709</b>

	2013/14 £000	2012/13 £000
<b>Analysis of Debtors</b>		
NHS bodies	8	9
Public corporation and trading funds	184	168
Other entities and individuals	71	58
<b>Total Debtors</b>	<b>263</b>	<b>235</b>

## 13. Current Liabilities

	2013/14 £000	2012/13 £000
Unpaid Benefits	(439)	(166)
Accrued Expenses	(241)	(301)
Bank Account Balance	(1,931)	-
<b>Current Liabilities</b>	<b>(2,611)</b>	<b>(467)</b>

	2013/14 £000	2012/13 £000
<b>Analysis of Creditors</b>		
Other entities and individuals	(680)	(467)
<b>Total</b>	<b>(680)</b>	<b>(467)</b>

**Analysis of derivatives****Objectives and policies for holding derivatives**

Most of the holdings in derivatives are to hedge liabilities or hedge exposure to reduce risk in the fund. The use of derivatives is managed in line with the investment management agreement agreed between the fund and various investment managers.

**Forward foreign currency**

The fund currently has exposure to forward currency contracts and the purpose of this is to reduce the fund's exposure to fluctuations in exchange rates. The fund managers who use forward currency contracts are Royal London and Ruffer. A breakdown of forward contracts held by the fund as at 31 March 2014 is given below.

**Open forward currency contracts**

Settlement	Currency Bought	Local Value 000	Currency sold	Local Value 000	Asset Value (Unrealised Gain) £000	Liability Value (Unrealised loss) £000
Up to one month	JPY	205,990	GBP	1,203		(3)
Up to one month	JPY	313,610	GBP	1,862		(35)
Up to one month	JPY	320,571	GBP	1,878		(11)
Up to one month	JPY	176,706	GBP	1,044		(14)
Up to one month	GBP	9,964	JPY	1,692,940	102	
Up to two months	GBP	3,411	USD	5,607	47	
Up to three months	GBP	1,390	EUR	1,666	12	
Up to three months	EUR	1,325	GBP	1,107		(11)
Up to three months	GBP	1,121	EUR	1,340	13	
Up to three months	GBP	399	USD	659	3	
Up to three months	GBP	1,782	USD	2,959	6	
<b>Gross Open forward currency contracts at 31 March 2014</b>					<b>183</b>	<b>(74)</b>
<b>Net Forward currency contracts at 31 March 2014</b>					<b>109</b>	
<b>Prior year comparative</b>						
<b>Gross Open forward currency contracts at 31 March 2013</b>					<b>130</b>	<b>(517)</b>
<b>Net Forward currency contracts at 31 March 2013</b>						<b>(387)</b>

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

Market Value 31 March 2013 £000	% of total fund	Security	Market Value 31 March 2014 £000	% of total fund
0	0	Barings Dynamic Asset Allocation Fund	97,978	19.36
76,297	16.57	Baillie Gifford Global Alpha Pension Fund	85,594	16.92
0	0	Baillie Gifford Diversified Growth Fund	71,029	14.04
109,991	23.88	SSgA MPF All World Equity index	46,634	9.22

## 14. Financial instruments

## (a) Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (excluding cash) by category and net assets statement heading. No financial assets were reclassified during the accounting period.

31 March 2013				31 March 2014		
Designated as fair value through fund account	Loans and receivables	Financial liabilities at amortised cost		Designated as fair value through fund account	Loans and receivables	Financial liabilities at amortised cost
£000	£000	£000		£000	£000	£000
			<b>Financial Assets</b>			
107,401	-	-	Equities	24,720	-	-
65,506	-	-	Fixed Interest Securities	68,082	-	-
53,541	-	-	Index linked securities	53,644	-	-
92	-	-	Derivative contracts	183	-	-
201,454	-	-	Pooled investment Vehicles	324,632	-	-
21,542	-	-	Property	22,888	-	-
-	6,774	-	Cash	-	5,951	-
-	-	-	Other investment balances	-	-	-
-	6,523	-	Debtors	-	9,566	-
<b>449,536</b>	<b>13,297</b>	-	<b>Financial Assets Total</b>	<b>494,149</b>	<b>15,517</b>	-
			<b>Financial Liabilities</b>			
(479)	-	-	Derivative contracts	(74)	-	-
-	-	-	Other investment balances	-	-	-
-	-	(1,779)	Creditors	-	-	(3,573)
(479)	-	(1,779)	<b>Financial Liabilities Total</b>	(74)	-	(3,573)
<b>449,057</b>	<b>13,297</b>	<b>(1,779)</b>	<b>Grand total</b>	<b>494,075</b>	<b>15,517</b>	<b>(3,573)</b>

## (b) Net gains and losses on financial instruments

	2013/14	2012/13
	£000	£000
<b>Financial assets</b>		
Fair value through fund account	24,427	49,098
Loans & receivables	-	-
Financial liabilities measured at amortised cost	-	-
<b>Financial liabilities</b>		
Fair value through fund account	-	-
Loans & receivables	-	-
Financial liabilities measured at amortised cost	-	-
<b>Total</b>	<b>24,427</b>	<b>49,098</b>

**c) Fair Value of financial instruments carried out at fair value**

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values

2012/13			2013/14	
Carrying Value	Fair Value		Carrying Value	Fair Value
£000	£000		£000	£000
449,536	449,536	<b>Financial assets</b> Fair value through fund account	494,149	494,149
13,297	13,297	Loans & receivables	15,517	15,517
<b>462,833</b>	<b>462,833</b>	<b>Total financial assets</b>	<b>509,666</b>	<b>509,666</b>
(479)	(479)	<b>Financial liabilities</b> Fair value through fund account	(74)	(74)
(1,779)	(1,779)	Financial liabilities at amortised cost	(3,573)	(3,573)
<b>(2,258)</b>	<b>(2,258)</b>	<b>Total financial liabilities</b>	<b>(3,647)</b>	<b>(3,647)</b>

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

**(d) Valuations of financial instruments carried out at fair value**

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

**Level 1**

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

**Level 2**

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

**Level 3**

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

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

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

Values at 31 March 2014	Quoted Market price	Using observable inputs	With significant unobservable inputs	Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
<b>Financial Assets</b>				
Financial assets at fair value through profit and loss	471,245	16	22,888	494,149
Loans and receivables	15,517	-	-	15,517
<b>Total financial Assets</b>	<b>486,762</b>	<b>16</b>	<b>22,888</b>	<b>509,666</b>
<b>Financial Liabilities</b>				
Financial liabilities at fair value through profit and loss	(74)	-	-	(74)
Financial liabilities at amortised cost	(3,573)	-	-	(3,573)
<b>Total Financial Liabilities</b>	<b>(3,647)</b>	<b>-</b>	<b>-</b>	<b>(3,647)</b>
<b>Net Financial Assets</b>	<b>438,115</b>	<b>16</b>	<b>22,888</b>	<b>506,019</b>

Values at 31 March 2013	Quoted Market price	Using observable inputs	With significant unobservable inputs	Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
<b>Financial Assets</b>				
Financial assets at fair value through fund account	436,152	26	21,542	457,720
Loans and receivables	3,709	-	-	3,709
<b>Total financial Assets</b>	<b>439,861</b>	<b>26</b>	<b>21,542</b>	<b>461,429</b>
<b>Financial Liabilities</b>				
Financial liabilities at fair value through fund account	(387)	-	-	(387)
Financial liabilities at amortised cost	(467)	-	-	(467)
<b>Total Financial Liabilities</b>	<b>(854)</b>	<b>-</b>	<b>-</b>	<b>(854)</b>
<b>Net Financial Assets</b>	<b>439,007</b>	<b>26</b>	<b>21,542</b>	<b>460,575</b>

Please note that the above table for the year ending 31 March 2013 does not show the correct allocation of assets under level 1 for cash and investment accruals. This does not impact the bottom line in the table.

#### 15. 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 council manages these investment risks as part of its overall pension fund risk management programme.

**(a) Market risk**

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

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

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

**Other price risk**

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

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

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

**Other Price Risk – sensitivity analysis**

Following analysis of historical data and expected investment return movements during the financial year, in consultation with the fund's performance monitoring service, it has been determined that the following movements in market price risk are reasonably possible for the 2013/14 reporting period:

Asset Type	31 March 2014 Potential market movements (+/-)	31 March 2013 Potential market movements (+/-)
UK Equities	8.91%	18.30%
Global Pooled inc UK	11.31%	13.30%
Fixed Interest Bonds	6.74%	6.10%
Index Linked bonds	10.49%	9.90%
Property	4.17%	3.80%
Cash	0.02%	0.00%

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of assets.

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

Asset Type	Value as at 31 March 2014 £000	Change %	Value on Increase £000	Value on Decrease £000
UK Equities	6,707	8.91	7,305	6,109
Global Pooled inc.UK	342,645	11.31	381,398	303,892
Fixed Interest Bonds	68,082	6.74	72,671	63,493
Index linked bonds	53,644	10.49	59,271	48,017
Property	22,888	4.17	23,842	21,934
Cash	5,951	0.02	5,952	5,950
<b>Total</b>	<b>499,917</b>		<b>550,439</b>	<b>449,395</b>

Asset Type	Value as at 31 March 2013 £000	Change %	Value on Increase £000	Value on Decrease £000
UK Equities	89,525	18.30	105,908	73,142
Global Pooled inc.UK	219,330	13.30	248,501	190,159
Fixed Interest Bonds	65,506	6.10	69,502	61,510
Index linked bonds	53,541	9.90	58,842	48,240
Property	21,542	3.80	22,361	20,723
Cash	6,774	0.00	6,774	6,774
<b>Total</b>	<b>456,218</b>		<b>511,888</b>	<b>400,548</b>

**Currency Risk**

Currency risk represents the risk that fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund, i.e. £sterling.

The table below summarises the fund's currency exposure by asset type as at 31 March 2014 and 31 March 2013.

Currency Exposure by asset Type	Value as at 31 March 2014	Value as at 31 March 2013
	£000	£000
Overseas Equities	18,013	17,876
Overseas Pooled	2,971	3,819
Overseas Fixed Interest bonds	-	1,797
Overseas Index Linked bonds	11,444	12,200
Overseas Cash	113	13
<b>Total overseas assets</b>	<b>32,541</b>	<b>35,705</b>

**Currency risk – sensitivity analysis**

Following analysis of historical data in consultation with the fund's performance measurement service it has been determined that a likely volatility associated with foreign exchange rate movements is 6.9% over a rolling 36 month period.

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

A 6.9% strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

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

Currency exposure - Asset Type	Value as at 31 March 2013	Change to net assets available to pay benefits	
		+6.9%	-6.9%
	£000	£000	£000
Overseas Equities	17,876	19,109	16,643
Overseas Pooled	3,819	4,083	3,555
Overseas Fixed Interest Bonds	12,200	13,042	11,358
Overseas Index Linked Bonds	1,797	1,921	1,673
Overseas Cash	13	14	12
<b>Total</b>	<b>35,705</b>	<b>38,169</b>	<b>33,241</b>

**Interest Rate Risk**

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The fund's direct exposure to interest rate movements as at 31 March 2014 and 31 March 2013 is set out in the following table. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	As at 31 March 2014	As at 31 March 2013
	£000	£000
Bond securities	121,726	119,047
Cash and cash equivalent	5,951	5,719
Cash Balances	-	1,055
<b>Total</b>	<b>127,677</b>	<b>125,821</b>

**Interest rate risk sensitivity analysis**

The pension fund recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits.

The analysis that follows assumes all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS (1%) change in interest rates

Asset Type	Value as at 31 March 2014 £000	Change in year in the net assets available to pay benefits	
		+100BPS £000	-100BPS £000
Bond Securities	121,726	1,217	(1,217)
Cash and cash equivalent	5,951	60	(60)
Cash Balance	-	-	-
<b>Total Change in asset value</b>	<b>127,677</b>	<b>1,277</b>	<b>(1,277)</b>

**(b) Credit Risk**

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

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

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

**(c) Liquidity Risk**

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

**16. Related Party Transactions**

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

The Havering Pension Fund is administered by Havering Council and consequently there is a strong relationship between the council and the pension fund. In 2013/14, £0.693m was paid to the Council for the cost of administering the Fund (£0.566m in 2012/13).

The Council is also the largest employer in the Fund and in 2013/14 contributed £33.500m (£19.700m in 2012/13) to the Pension Fund in respect of employer's contributions.

Several employees of Havering Council hold key positions in the financial management of the Fund. As at 31 March 2014 these included the Group Director of Resources, Head of Finance and Procurement, Corporate Finance Manager and the Pension Fund Accountant. All these managers are members of the Pension Fund. In 2013/14 the Pension Fund contributed £0.143m for the cost of the financial management of the Fund (£0.143k 2012/13).

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 2014 cash holdings totalled £5.7m.

**Governance**

Responsibility for management of the Pension Fund has been delegated to the Pensions Committee and the day to day operations of the fund have been delegated to the Group Director of Resources.

No members of the Pension Fund committee are in receipt of pension benefits from the Havering Pension Fund.

Each member of the Pension Fund Committee is required to declare their interests at each meeting.

During the year no Member or Council officer with direct responsibility for pension fund issues has undertaken any declarable material transactions with the Pension Fund.

The members of the Pensions Committee do not receive fees in relation to their specific responsibilities as members of the Pensions Committee.

## 17. Contingent Liabilities and Contractual Commitments

Outstanding capital commitments (investments) as at 31 March 2014 totalled £186k (2012/13 £186k). This commitment relates to outstanding commitment due on an unquoted private equity fund.

## 18. Contingent Assets

Five admitted bodies in the Havering pension fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds total £5.1m and are drawn down in favour of the pension fund and payment will only be triggered in the event of employer default.

Two new admitted bodies, which are subject to pending legal agreements, will hold bonds or guarantees totalling £1.5m.

## 19. Impairment losses

There were no material impairment losses for bad and doubtful debts as at 31 March 2013/14.

## 20. Post Balance Sheet Events

Due to unforeseen circumstances the mandate with Barings was terminated on the 29 August 2014. The closing value of the mandate was £100,643m. This will be temporarily invested in the State Street Global Assets Sterling Liquidity Fund pending a search for a replacement Fund Manager.

## 21. Actuarial Present value of promised retirement benefits

In addition to the triennial funding valuation, the fund's actuary also undertakes a valuation of the pension fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

In order to assess the value of the benefits on this basis, the actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 21). The actuary has also valued ill health and death benefits in line with IAS 19.

The actuarial present value of promised retirement benefits at 31 March 2014 was £898m (31 March 2013 £895m). The fund accounts do not take account of liabilities to pay pensions and other benefits in the future.

The liabilities above are calculated on an IAS 19 basis and therefore differ from the results of the 2010 triennial

funding valuation (see Note 21) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

Assumptions used for the IAS 19 valuation are as follows:

	31 March 2014	31 March 2013
	% p.a.	% p.a.
Inflation/Pensions Increase Rate	2.6	2.8
Salary Increase Rate	3.4	4.6*
Discount Rate	4.10	4.5

\* Salary increases are assumed to be 1% until 31 March 2015 reverting to long term assumption shown thereafter.

## 22. Actuarial Valuation

### London Borough of Havering ("the Fund") Actuarial Statement for 2013/14

This statement has been prepared in accordance with Regulation 34(1) (d) of the Local Government Pension Scheme (Administration) Regulations 2008, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2013/14.

### Description of Funding Policy

The funding policy is set out in the London Borough of Havering Funding Strategy Statement (FSS), dated February 2014. 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'/dependents' 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 the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (NB this will also minimise costs to be borne by Council Tax payers);
- to reflect the different characteristics of employing bodies in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised below the theoretical rate required to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still a better than 60% chance that the Fund will return to full funding over 24 years

**Funding Position as at the last formal funding valuation**

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £461 million, were sufficient to meet 61% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £292 million.

Individual employers' contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Fund's funding policy as set out in its FSS.

**Principal Actuarial Assumptions and Method used to value the liabilities**

Full details of the methods and assumptions used are described in the valuation report dated 30 March 2014.

**Method**

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

**Assumptions**

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2013 valuation were as follows:

Assumptions	31 March 2013	
	Nominal	Real
Discount Rate for Period	4.8%	2.3%
Pay increases *	3.3%	0.8%
Price inflation/Pension increases	2.5%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with CMI 2010 model, assuming the current rate of improvements has peaked and will converge to a long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

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

\* Currently aged 45

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from London borough of Havering, administrating authority to the fund.

**Experience over the period since April 2013**

Experience has been better than expected since the last valuation (excluding the effect of any membership movements). Real bonds yields have risen and asset returns have been better than expected meaning that funding levels are likely to have improved since the 2013 valuation

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

Employers' contribution rates for the Council, in line with the actuary's recommendation are as shown below:

	Future Service	Past Service	Total Pensionable Pay
	%	%	%
April 14 to March 15	15.6	6.4	22.0
April 15 to March 16	15.6	6.4	22.0
April 16 to March 17	15.6	6.4	22.0

The employer contributions for the other employers in the fund range from 16.7% to 28.7% of pensionable pay.

**23. Critical Judgements in applying accounting Policies**

**Pension Fund liability**

The pension fund liability is calculated every three years by the appointed actuary, with annual updates provided to the majority of admitted and scheduled bodies in the fund in the intervening years. The methodology used in

the annual updates is in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 21. This estimate is subject to significant variances based on changes to the underlying assumptions.

#### **24. Assumptions made about the future and other major sources of estimation uncertainty**

The Statement of Accounts contains estimated figures that are based on assumptions made by the administrative body about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the net asset statement at 31 March 2014 for which there is significant risk of material adjustment in the forthcoming financial year are as follows:

<b>Item</b>	<b>Uncertainties</b>	<b>Effect if Actual Results differ from assumptions</b>
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied	<p>The effects on the present value of promised retirement benefits of changes in actuarial assumptions can be significant. Changes in assumptions could have the approximate following impacts on the Fund's employer liability as follows:</p> <ul style="list-style-type: none"> <li>• 0.5% decrease in the Real Discount rate could result in an increase of 9%.</li> <li>• 1 year increase in member life expectancy could result in an increase of 3%.</li> <li>• 0.5% increase in salary increase rate could result in an increase of 2%</li> <li>• 0.5% increase in the pension Increase Rate could result in an increase of 6%</li> </ul>