

LONDON BOROUGH OF HAVERING STATEMENT OF ACCOUNTS 2011- 2012

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 Finance and Commerce.

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 2011/12 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.

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

During 2011/12 ten schools converted to Academies and Volker were admitted as a new employer to the fund and May Gurney ceased to be an active employer.

Membership

The membership of the Pension Fund is as follows:

	As at 31st March 2012	As at 31st March 2011
Contributors	5,878	6,155
Deferred pensioners	4,405	4,041
Pensioners and Dependants	5,253	5,065
TOTAL	15,536	15,261

Employers in the Fund

The other employers in the Pension Fund are as follows:

Scheduled bodies:

Havering College of Further Education
 Havering Sixth Form College
 Homes in Havering
 Drapers Academy (Academy from 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)
 Champion 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)

Admitted Bodies:

Havering Citizens Advice Bureau
 Morrisons (formerly AWG)
 May Gurney (ceased 31 October 2011)
 Sports & Leisure Management Ltd
 KGB Cleaners
 Volker (joined 1 November 2011)

Designated Bodies:**Trust Schools**

Corbets Tey Special School

Foundation Schools

Marshall Park (Foundation from 1 September 2011)
 Royal Liberty
 The Chafford School
 The Sanders Draper School
 The Mawney Primary School
 Frances Bardsley School for Girls (Academy from 1 July 2012)

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

Investment Arrangements

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 each year 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.

A review of the Fund's investment strategy took place during the summer of 2008. Given that markets had seen unprecedented volatility and market falls during 2008 some of the intended restructuring was postponed. The markets were monitored during 2009 and the Fund carried out a competitive tender process for a Passive Equity Manager and a Multi – asset Manager. The results of this exercise

awarded contracts to State Street (passive equities manager) and Ruffer Investment Company (Multi-asset manager) who commenced trading in September 2010. In September 2010 the Pensions Committee decided to terminate the mandate with the Global Equities Manager (Alliance Bernstein) and assets were placed with the Passive Equity Manager (State Street Global Assets) until a new Global Equity Manager was appointed. A new Global Equity Manager Baillie Gifford was awarded the mandate for Global equities in December 2011. Assets are in the process of being transferred and it is anticipated that trading will commence in April 2012. Further strategy implementation (including rebalancing) will be undertaken during 2012/13.

The Fund managers and the market value of assets under their management as at 31st March 2012 were as follows:

Manager	Mandate	Value	
		£'000	%
Standard Life	UK Equities	90,178	22.4
Royal London	Investment Grade Bonds	104,182	25.9
UBS	Property	26,654	6.6
Ruffer	Absolute Return	39,146	9.8
State Street Global Assets	Passive UK/Global Equities	142,116	35.3
Alliance Bernstein	Global Equities	21	0.0
Baillie Gifford	Global Equities	-	-
	Other	22	0.0
	Total Fund	402,319	100.0

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 2011/12, the overall return on the Fund's investments was 4.2% (2010/11 6.3%). This represented an under

performance of -0.6% against the tactical benchmark (2010/11 underperformance of -1.9%) and an under performance of -16.9% against the strategic benchmark (2010/11 underperformance -3.3%).

The longer term performance is as follows:

	3 years to 31.3.12 %	5 years to 31.3.12 %
Fund return	15.3	1.5
Tactical Benchmark	15.3	4.0
Performance	0.0	-2.3
Fund return	15.3	1.5
Strategic benchmark	12.4	11.3
Performance	2.6	-8.8

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

Pension Fund Account for the year ended 31st March 2012

2010/11 £'000		Note	2011/12 £'000
Contributions and benefits			
28,337	Contributions	3	30,286
4,311	Transfers in from other pension funds	4	2,637
32,648			32,923
(25,702)	Benefits	5	(31,215)
(1,258)	Payments to and on account of leavers	6	(2,581)
(613)	Administration expenses	7	(586)
(27,573)			(34,382)
5,075	Net additions / (withdrawals) from dealings with members		(1,459)
Returns on Investments			
(1,282)	Investment management expenses	8	(1,138)
10,196	Investment income	9	8,360
14,174	Profit and losses on disposal of investments and changes in the market value of investments	10	9,108
23,088	Net returns on investments		16,330
28,163	Net Increase in the net assets available for benefits during the year		14,871
360,471	Net assets of the Fund at start of year		388,634
388,634	Net assets of the Fund at end of year		403,505

Net Asset Statement as at 31 March			
2011 £'000		Note	2012 £'000
388,686	Investment Assets	11	402,319
(164)	Investment Liabilities	11	-
413	Current Assets	12	1,695
(301)	Current Liabilities	13	(509)
388,634	Net assets of the fund available to fund benefits at end of the year		403,505

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. Refer to Note 22 for details of the Actuarial Valuation.

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 2011/12 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

Transactions are included on an accruals basis, other than transfer values which are included on a cash basis, on the basis that they represent a reasonable estimation of cost.

2. Summary of Significant Accounting Policies

Fund Account - revenue

(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 note 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. A proportion of relevant officers' salary costs, including related on-costs, has been charged to the Fund.

(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, including related on-costs, has 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.

(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.

Stock Lending

Stock lending is only permitted by the Fund's passive equity manager State Street, on the basis that they have agreed to indemnify the fund against any loss arising from insufficient collateral being posted as part of the stock lending programme

3. Contributions

	2011/12 £'000	2010/11 £'000
Employers		
Normal:		
Havering	11,322	13,057
Scheduled Bodies	3,421	2,072
Admitted Bodies	541	560
Deficit funding:		
Havering	6,994	5,734
Augmentation:		
Havering	1,083	311
Scheduled Bodies	63	63
Admitted Bodies	499	2
Employer Total	23,923	21,799
Members		
Normal:		
Havering	5,029	5,506
Scheduled bodies	1,060	723
Admitted bodies	150	160
Additional contributions:		
Havering	96	127
Scheduled bodies	27	21
Admitted bodies	1	1
Members Total	6,363	6,538
	30,286	28,337

Note: Some employees made additional voluntary contributions (AVC's) of £80,030 (£99,053 10/11) excluded from the 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 2011/12 were £69,870 to the Prudential and £10,160 to Standard Life. These amounts are not included in the Pension Fund Account in accordance with regulation 5[2] c of the Pension Scheme (Management and Investment of Funds) Regulations 1998 (SI 1998 No 1831).

4. Transfers in from other pension funds

	2011/12 £'000	2010/11 £'000
Individual transfers in from other schemes	2,637	4,311

5. Benefits

	2011/12 £'000	2010/11 £'000
Pensions		
Havering	22,274	20,766
Scheduled Bodies	483	327
Admitted Bodies	278	197
Pension Total	23,035	21,290
Commutation & Lump Sum Retirements		
Havering	5,773	3,426
Scheduled Bodies	562	360
Admitted Bodies	868	128
Commutation Total	7,203	3,914
Lump sum death benefits		
Havering	610	161
Scheduled Bodies	270	165
Admitted Bodies	97	172
Death Benefits Total	977	498
	31,215	25,702

6. Payments To and On Account of leavers

	2011/12 £'000	2010/11 £'000
Refunds to members leaving service	2	1
Individual transfers to other schemes	2,579	1,257
	2,581	1,258

7. Administrative expenses

	2011/12 £'000	2010/11 £'000
Administration & Processing	522	499
Actuarial Fees	9	63
Audit Fees	35	35
Other Fees	5	6
Other Expenses	15	10
	586	613

8. Investment management expenses

	2011/12 £'000	2010/11 £'000
Administration, management and custody	1,053	1,224
Performance measurement services	12	11
Other Advisory Fees	73	47
	1,138	1,282

9. Investment Income

	2011/12 £'000	2010/11 £'000
Income from Fixed Interest securities	*4,137	4,702
Dividends from equities	3,700	4,419
Income from pooled vehicles	1,260	617
Cash & Deposits	54	128
Other	0	117
Other Income		
Foreign Exchange (Losses) / Profits/	(791)	213
Total Income	8,360	10,196

* Income includes Index linked Interest of £532k

10. Reconciliation of movements in investments & derivatives

	Market Value at 31st March 2011 £'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 31st March 2012 £'000
Equities	96,138	38,337	(24,975)	(5,291)	-	104,209
Fixed interest Securities	76,134	103,666	(111,287)	5,201	(2,860)	70,854
Index-linked Securities	37,255	279,301	(281,406)	8,650	2,860	46,660
Pooled Investment Vehicles	165,765	12,325	(2,516)	(118)	-	175,456
Derivatives	(164)	-	-	680	-	516
Cash instruments	-	8,867	(8,194)	-	-	673
Cash deposits (fund managers)	2,655	-	-	-	576	3,231
	377,783	442,496	(428,378)	9,122	576	401,599
Short term investments	8,495	-	-	-	(8,495)	-
Other Investment Balances	2,243	-	-	(14)	(1,509)	720
	388,521	442,496	(428,378)	9,108	(9,428)	402,319

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 as supplied by the Fund's custodian amounted to £201,591 (2010/11 £564,898). 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

	2011/12 £'000	2010/11 £'000
Equities		
UK Quoted	91,511	90,970
Overseas quoted	12,698	5,168
	104,209	96,138
Fixed Interest Securities		
UK Public sector	9,716	10,963
UK Private (corporate)	59,671	58,527
Overseas Public sector	1,467	6,644
	70,854	76,134
Index-Linked Securities		
UK Public sector	36,887	33,690
UK Private (corporate)	575	564
Overseas Public sector	9,198	3,001
	46,660	37,255
Derivative Contracts		
Forward FX Contracts	516	(164)
	516	(164)
Pooled Investment Vehicles		
UK Managed Funds		
UK Quoted	147,750	146,141
UK Unquoted	22	19
Overseas	1,111	-
Property	981	1,084
UK Unit Trust		
UK Property	25,592	18,521
	175,456	165,765
Cash Instruments		
UK	673	-
	673	-
Cash Deposits		
Managers	3,231	2,655
	3,231	2,655
Short Term Investments		
L.B. of Havering	-	8,495
	-	8,495

11. Investments (continued)

	2011/12 £'000	2010/11 £'000
Other Investment balances		
Outstanding Sales	3,004	1,439
Investment income	1,325	1,504
Outstanding dividend and recoverable withholding tax	841	568
Outstanding Trades	(4,448)	(1,266)
Investment Income	(2)	(2)
	720	2,243
Total Investments	402,319	388,521

12. Current Assets

	2011/12 £'000	2010/11 £'000
Pension Grants	13	17
Contributions due from Employers	378	312
Contributions due from members	109	84
Cash deposit with LB Havering	1,195	-
Current Assets	1,695	413

13. Current Liabilities

	2011/12 £'000	2010/11 £'000
Unpaid Benefits	(178)	(87)
Accrued Expenses	(331)	(214)
Current Liabilities	(509)	(301)

Analysis of Debtors

	2011/12 £'000	2010/11 £'000
Central government bodies	-	-
Other Local Authorities	-	-
NHS bodies	13	17
Public corporation and trading funds	378	312
Other entities and individuals	109	84
Total	500	413

Analysis of Creditors

	2011/12 £'000	2010/11 £'000
Central government bodies	-	-
Other Local Authorities	-	-
NHS bodies	-	-
Public corporation and trading funds	-	-
Other entities and individuals	(509)	(301)
Total	(509)	(301)

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. A breakdown of forward contracts held by the fund as at 31 March 2012 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	GBP	3,823	JPY	453,902	370	-
Up to one month	GBP	956	JPY	116,869	68	-
Up to one month	GBP	791	JPY	99,252	36	-
Up to one month	GBP	370	JPY	47,358	10	-
Up to two months	GBP	530	JPY	836	6	-
Up to three months	GBP	1,370	EUR	1,627	13	-
Up to three months	GBP	2,130	USD	3,345	36	-
Up to three months	GBP	706	USD	1,130	-	(1)
Up to three months	USD	3,226	GBP	2,041	-	(22)
Gross Open forward currency contracts at 31 March 2012					539	(23)
Net Forward currency contracts at 31 March 2012					516	
Prior year comparative						
Gross Open forward currency contracts at 31 March 2011					172	(336)
Net Forward currency contracts at 31 March 2011						(164)

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 2011				31 March 2012		
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
			Financial Assets			
96,138			Equities	104,209		
76,134			Fixed Interest Securities	70,854		
37,255			Index linked securities	46,660		
172			Derivative contracts	539		
147,244			Pooled investment Vehicles	149,864		
18,521			Property	25,592		
	2,655		Cash		3,904	
	12,419		Other investment balances			
			Debtors		6,865	
375,464	15,074	-	Financial Assets Total	397,718	10,769	-
			Financial Liabilities			
(336)			Derivative contracts	(23)		
		(1,569)	Other investment balances			
			Creditors			(4,959)
(336)	-	(1,569)	Financial Liabilities Total	(23)	-	(4,959)
375,128	15,074	(1,569)	Grand total	397,695	10,769	(4,959)

(b) Net gains and losses on financial instruments

	2011/12	2010/11
	£'000	£'000
Financial assets		
Fair value through fund account	9,122	14,372
Loans & receivables	-	-
Financial liabilities measured at amortised cost	-	-
Financial liabilities		
Fair value through fund account	-	(80)
Loans & receivables	-	-
Financial liabilities measured at amortised cost	(14)	(118)
Total	9,108	14,174

(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

2010/11			2011/12	
Carrying Value	Fair Value		Carrying Value	Fair Value
£'000	£'000		£'000	£'000
375,464	375,464	Financial assets	397,718	397,718
15,074	15,074	Fair value through fund account	10,769	10,769
		Loans & receivables		
390,538	390,538	Total financial assets	408,487	408,487
(336)	(336)	Financial liabilities	(23)	(23)
(1,569)	(1,569)	Fair value through fund account	(4,959)	(4,959)
		Financial liabilities at amortised cost		
(1,905)	(1,905)	Total financial liabilities	(4,982)	(4,982)

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 2012	Quoted Market price	Using observable inputs	With significant unobservable inputs	Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
Financial Assets				
Financial assets at fair value through fund account	402,297	-	22	402,319
Loans and receivables	1,695	-	-	1,695
Total financial Assets	403,992	-	22	404,014
Financial Liabilities				
Financial liabilities at fair value through fund Account	-	-	-	-
Financial liabilities at amortised cost	(509)	-	-	(509)
Total Financial Liabilities	(509)	-	22	(509)
Net Financial Assets	403,483	-	22	403,505

Values at 31 March 2011	Quoted Market price	Using observable inputs	With significant unobservable inputs	Total £'000
	Level 1 £'000	Level 2 £'000	Level 3 £'000	
Financial Assets				
Financial assets at fair value through fund account	388,666	-	19	388,685
Loans and receivables	413	-	-	413
Total financial Assets	389,079	-	19	389,098
Financial Liabilities				
Financial liabilities at fair value through fund account	(164)	-	-	(164)
Financial liabilities at amortised cost	(301)	-	-	(301)
Total Financial Liabilities	(465)	-	-	(465)
Net Financial Assets	388,614	-	19	388,633

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 2012/13 reporting period:

Asset Type	Potential market movements (+/-)
UK Equities	21.5%
Overseas Equities	15.7%
Fixed Interest Bonds	7.0%
Index Linked bonds	8.0%
Property	4.1%
Cash	0%

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 2012 £'000	Change %	Value on Increase £'000	Value on Decrease £'000
UK Equities	239,900	21.5	291,551	188,249
Overseas Equities	14,173	15.7	16,395	11,950
Fixed interest Bonds	70,853	7.0	75,834	65,872
Index Linked bonds	46,661	8.0	50,403	42,918
Property	25,592	4.1	26,629	24,556
Cash	3,904	0.0	3,904	3,904
Total	401,083		464,716	337,449

Asset Type	Value as at 31 March 2011 £'000	Change %	Value on Increase £'000	Value on Decrease £'000
UK Equities	238,213	21.5	289,429	186,997
Overseas Equities	5,168	15.7	5,979	4,356
Fixed interest Bonds	76,134	7.0	81,463	70,804
Index Linked bonds	37,256	8.0	40,236	34,275
Property	18,521	4.1	19,281	17,762
Cash	2,656	0.0	2,656	2,656
Total	377,948		439,044	316,850

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.

Currency risk – sensitivity analysis

The table below summarises the fund's currency exposure by asset type as at 31 March 2012. 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 10.3% over a rolling 36 month period.

A 10.3% 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 2012 £'000	Change to net assets available to pay benefits	
		+10.3% £'000	-10.3% £'000
Overseas Equities	14,172	15,634	12,711
Overseas Index Linked Bonds	9,198	10,147	8,249
Overseas Fixed interest Bonds	1,467	1,618	1,315
Overseas Cash	66	73	59
Total	24,903	27,472	22,334

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 2012 and 31 March 2011 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset Type	As at 31 March 2012 £'000	As at 31 March 2011 £'000
Cash and cash equivalent	3,904	2,655
Cash Balances	1,195	8,495
Fixed interest securities	117,514	113,389
Total	122,613	124,539

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 2012 £'000	Change in year in the net assets available to pay benefits	
		+100BPS £'000	-100BPS £'000
Cash and cash equivalent	3,904	12	(12)
Cash Balances	1,195	39	(39)
Fixed interest Securities	117,514	1,175	(1,175)
Total change in asset value	122,613	1,226	(1,226)

(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 Havering pension fund is administered by Havering Council. Consequently there is a strong relationship between the council and the pension fund.

There were no transactions with related parties other than those disclosed elsewhere within the accounts. During the year fees were paid to certain trustees for their services to the scheme. 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.

In 2011/12, £0.522m was paid to the Council for administration (£0.499m in 2010/11) and £19.398m (£19.102m in 2010/11) was paid by the Council to the Pension Fund in respect of employer's contributions.

Part of the pension fund 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 2012 cash holdings totalled £1.2m.

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.

17. Contingent Liabilities and Contractual Commitments

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

18. Contingent Assets

Two admitted bodies in the Havering pension fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds total £0.9m and are drawn down in favour of the pension fund and payment will only be triggered in the event of employer default.

19. Contingent Liabilities

The Pension fund has no material contingent liabilities or contractual commitments as at 31 March 2012 (2011: none).

20. Impairment losses

There were no material impairment losses during as at 31 March 2011/12.

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 22). 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 2012 was £764m (31 March 2011 £663m). 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 22) 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 2012	31 March 2011
	% p.a.	% p.a.
Inflation/Pensions Increase Rate	2.5	2.8
Salary Increase Rate	4.3*	4.6**
Discount Rate	4.8	5.5

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

** Salary increases are assumed to be 1% p.a. until 31 March 2013, then 2 years at 2.8% p.a. reverting to 4.6% thereafter.

22. Actuarial Valuation

London Borough of Havering (“the Fund”) Actuarial Statement for 2011/12

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 2011/12.

Description of Funding Policy

The funding policy is set out in the London Borough of Havering Funding Strategy Statement (FSS), dated February 2011. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- to ensure that employer contribution rates are as stable as possible;
- to minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- to reflect the different characteristics of employing bodies in determining contribution rates where the administering Authority considers it reasonable to do so;
- 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 50% 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 2010. This valuation revealed that the Fund’s assets, which at 31 March 2010 were valued at £361 million, were sufficient to meet 61.3% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2010 valuation was £228 million.

Individual employers’ contributions for the period 1 April 2011 to 31 March 2014 were set in accordance with the Fund’s funding policy as set out in its FSS.

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

	Future Service %	Past Service %	Total % of Pensionable Pay
April 11 to March 12	15.6	6.4	22.0
April 12 to March 13	15.6	6.4	22.0
April 13 to 14	15.6	6.4	22.0

The Fund recognises the risk in relying on long recovery periods and has agreed with the Fund Actuary a limit of 20 years.

Copies of the 2010 valuation report and Funding Strategy Statement are available on request from London Borough of Havering, administering authority to the Fund.

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 2011.

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 2010 valuation were as follows:

Assumptions	Rate
Discount Rate for Period	6.3%
Pay increases *	4.8%
Price inflation/Pension increases	3.3%
Valuation of assets	Market Value

* Plus an allowance for promotional pay increases. Short term pay growth was assumed to be 1% for 10/11 11/12 and 12/13, 3.3% for 13/14 and 14/15 before reverting to 4.8% thereafter.

The key demographic assumption was the allowance made for longevity. The baseline longevity assumptions adopted at this valuation were in line with standard SAPS mortality tables, and included improvements based on medium cohort projections and a 1% p.a. underpin effective from 2010. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	21.9 years	24.6 years
Future Pensioners *	23.8 years	26.5 years

* Future pensioners are assumed to be age 45 currently

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

24. Events after the year end date

Local Government Pension Scheme

On the 31 May 2012 the Local Government Association and Trades Unions announced that, following the conclusion of negotiations with the Government, they would be recommending acceptance of the new Local Government Pension Scheme. The proposals are subject to consultation with Local Authorities and Trades Union members but if accepted would be implemented from 1st April 2014. The pension fund liability, as disclosed in the Council's accounts, does not reflect the impact of the proposed scheme. The impact of the proposals are currently being evaluated but the precise impact on fund liabilities will not be known until a further valuation is carried out by the fund's actuary. This change is deemed to be a non-adjusting post year end event.

25. 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 2012 for which there is significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results differ from assumptions
Pension Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £57m. However, the assumptions interact in complex ways. During 2011/12, the actuaries advised that changes in actuarial assumptions gave rise to an additional charge of £35m.