# HAVERING PENSION FUND

# ANNUAL REPORT

# MARCH 2012

## Pensions Regulator Registration Number 10027841

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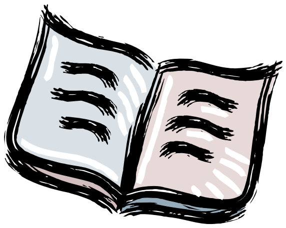

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# TRUSTEE REPORT

**Foreword to the Third Annual Report of the Havering Pension Fund for the year ended 31st March 2012**

During the year the Pensions Committee dealt with several key issues, which are listed on page 27 of the report and its members attended a number of associated training and development seminars, which are similarly listed on page 26.

In addition to highlighting the work of the Pensions Committee, an overview of the activities of the Pension Administration team is contained on pages 8 -10 of the report.

As part of the ongoing monitoring of the performance of the investment asset classes, it was noted that the market values of the different asset classes were out of line with their respective target values. During 2011/12 work was completed to re-balance the managers' portfolios and these are now in line with the policy adopted.

The value of the Fund as at 31st March 2012 was £404m, an increase on the previous year end valuation of £388m. The fund is invested in shares issued by companies listed on the stock exchange and on foreign exchanges and also in bonds, property funds and in cash.

The overall return on the Fund's investments (over the year growth of the fund expressed in percentage terms) was 4.2%. Further information on the Fund's investment performance can be found on page 18 of this report.

Stock markets are still very volatile and although the value of the Fund's assets grew during 2011/12 the impact of the rising value of liabilities will give rise to concerns for the funding level of the Fund as we approach the next cycle in the Valuation process; which will be set in motion after 31 March 2013.

As part of the continuing review of public expenditure the Government has consulted and continues to consult on changes to public pensions and members' concern of what the future holds is understood. Members will be considering the impact of the Pensions Services Bill and the regulations covering the new scheme due to be implemented from April 2014.

I trust that this report is both clear and informative to Fund members and for the general public, but should clarification be required, or comment made, contact details are shown on page 52.

Melvin Wallace
Chairman – Pensions Committee

## INTRODUCTION

The Council is an Administering Authority and operates a pension fund on behalf of its employees and pensioners under the provisions of the Local Government Pension Scheme Acts and Regulations. The Pension Fund is called the Havering Pension Fund (the 'Fund').

The Fund is financed by contributions from employees, employers and from profits, interest and dividends on its investments. The Fund does not form part of the Council's consolidated accounts and has established a separate bank account.

The performance of the Fund impacts on the cost of Council services through the cost of employer contributions. However, the performance of the Fund investments will not affect pension benefits to scheme members as benefits are guaranteed by Statutory Regulations irrespective of performance.

**Scheme Details**

The new look pension scheme came into force for all active members and potential members of the Local Government Pension Scheme on 1 April 2008.

The current Local Government Pension Scheme (LGPS) is a final salary scheme with pensions payable being based on the best of the last three year's pensionable pay and the number of years of reckonable service. Pensions are increased annually in line with the Consumer Price Index unless retirement occurred on the grounds of Redundancy or Efficiency before age 55, in which case, any increase is payable from age 55.

The scheme also pays a death benefit in the form of a lump sum and a pension to the spouse, civil partner, or nominated cohabitee of a member who dies in service. A dependant's pension is generally also paid to the spouse, civil partner or nominated cohabitee of a member who dies after retirement, or with a deferred pension.

All council employees who have a permanent or temporary contract of 3 months or more (except teachers), automatically join the fund from the first day of employment. Any member of the scheme can opt out by notifying the pensions office in writing.

## MANAGEMENT AND FINANCIAL PERFORMANCE REPORT

### SCHEME MANAGEMENT AND ADVISORS

The overall direction of the Funds investment strategy is delegated to the Council's Pension Committee. Performances of the six different managers, who have specific mandates, are measured against agreed benchmarks for each mandate.

The Pensions Committee also obtains and considers advice from the authority's officers, and as necessary from the Fund's appointed investment adviser, actuary and performance measurers who also attend meetings as and when required.

The Fund also appoints a custodian for the safekeeping of the scheme's asset, such as holding share and bond certificates and cash. The custodian also puts together reports on the accounting value of assets held.

Day to day management of the Fund is delegated to the Group Director Finance and Commerce.

The membership of the Pensions Committee reflects the political balance of the Council and the structure of the Pensions Committee members up to May 2012 were as follows:

Cllr Eric Munday (Chairman) – Conservative Group
Cllr Damian White (Vice Chairman) – Conservative Group
Cllr Roger Ramsey– Conservative Group
Cllr Melvin Wallace – Conservative Group
Cllr Ron Ower – Residents Group
Cllr Denis Breading – Labour Group
Cllr Jeffrey Tucker – Independent Local Residents Group
Union Members (Non voting) - John Giles (Unison), Vacant then Andy Hampshire (GMB) from January 2012
Admitted/Scheduled Body Representative (Non voting) - David Holmes – Havering College of Further and Higher Education

There were some changes made to the elected members of the committee due to the chairman taking on the role of Deputy Mayor. From May 2012 the voting Committee members were as follows:

Cllr Melvin Wallace (Chairman) – Conservative Group
Cllr Rebecca Bennett (Vice Chair) – Conservative Group
Cllr Roger Ramsey– Conservative Group
Cllr Eric Munday - Conservative Group
Cllr Ron Ower – Residents Group
Cllr Pat Murray – Labour Group
Cllr Jeffrey Tucker – Independent Local Residents Group

The terms of reference for the Pensions Committee are:

- To consider and agree the investment strategy and statement of investment principles (SIP) for the pension fund and subsequently monitor and review performance
- Authorise staff to invite tenders and to award contracts to actuaries, advisers and fund managers and in respect of other related investment matters
- To appoint and review the performance of advisers and investment managers for pension fund investments
- To take decisions on those matters not to be the responsibility of the Cabinet under the Local Authorities (Functions and Responsibilities)(England) Regulations 2000 relating to those matters concerning pensions made under Regulations set out in Sections 7, 12 or 24 of the Superannuation Act 1972

| | |
|---|---|
| Fund Administrator | London Borough of Havering, Town Hall, Romford, RM1 3BD |
| Fund Actuary | Hymans Robertson from 1 April 2010 |
| Auditors | PricewaterhouseCoopers LLP (PwC) |
| Custodians | State Street Global Services |
| Investment Managers | Standard Life Investments (UK Equities)<br>Royal London Asset Management (Investment Bonds)<br>UBS (Property)<br>Ruffer LLP (Multi Asset) from<br>State Street (Passive UK/Global Equities)<br>Baillie Gifford (Global Equities) from April 2012 |
| Investment Advisers | Hymans Robertson |
| Legal Advisers | London Borough of Havering Legal Services provide legal advice as necessary (specialist advice is procured as necessary) |
| Bankers | National Westminster Bank PLC |
| Performance Measurement | WM Company |
| AVC Providers | Prudential and Standard Life |
| Group Director of Finance & Commerce | Andrew Blake Herbert |
| Pension Fund Accountant | Debbie Ford |

**Employers in the Fund are as follows:**

- London Borough of Havering (includes non teaching staff in schools and schools listed below under Designated Bodies)

***Scheduled bodies***

- Havering College of Further Education
- Havering Sixth Form College
- Homes in Havering
- Drapers Academy (Academy from 1 September 11)
- Abbs Cross School (Academy from 1 April 11)
- Brittons School & Technology College (Academy from 1 April 11)
- Coopers' Company & Coborn School (Academy from 1 April 11)
- Hall Mead Secondary School (Academy from 1 August 11)
- The Albany School (Academy from 1 August 11)
- Campion School (Academy from 1 August 11)
- Sacred Heart of Mary's Girl's School (Academy from 1 August 11)
- St Edwards CE Secondary Comprehensive (Academy from 1 August 11)
- Redden Court (Academy from 1 September 11)
- Marshall Park (Academy from 1 September 11)
- Emerson Park (Academy from 1 September 11)
- Frances Bardsley School for Girls (Academy from 1 July 2012)

***Admitted Bodies***

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

***Designated Bodies:***

***Trust Schools***

- Corbets Tey Special School

***Foundation Schools***

- Marshall Park (Foundation from 1 September 2011)
- Royal Liberty
- Frances Bardsley School for Girls (up until 30 June 2012)
- The Chafford School
- 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

**ADMINISTRATIVE MANAGEMENT PERFORMANCE**

**Pension Services Local Performance Indicators 2011/12**

| INDICATOR | What is it an indicator of | Actual 2011/12 | Target 2011/12 |
|---|---|---|---|
| The percentage of retirements processed within 5 working days | The percentage of retirement payments processed within 5 working days of the employee retiring or receipt of all relevant information.<br><br>This indicator measures effectiveness through service delivery and is a standard throughout Local Government | 76.79% | 95% |
| The percentage of early retirement estimates processed within 10 working days | To produce estimates for early retirements i.e. ill health, redundancies and voluntary retirements within 10 working days of request, normal retirement date or receipt of all relevant information.<br>This indicator is particularly important to service clusters | 82.68% | 91% |
| The percentage of Notification of deferred benefits within 15 working days | To notify members who have left their job (or one of their jobs) of the deferred benefits that they have accrued at the point of leaving within 15 days of all relevant information. | 46.17% | 60% |
| The percentage of 'Transfers In' actuals processed within 15 working days. | The percentage of transfers in with the members' record updated with the transferred in information | 16.67% | 80% |
| The percentage of 'Transfers Out' actuals processed within 15 working days | The percentage of transfers out paid to the new pension provider | 92.86% | 80% |
| The percentage of 'death' notifications written out to within 5 days of receipt of all information received. | The percentage of deaths with notification of benefits | 66.67% | 95% |
| The percentage of joiners processed within 10 working days of information received | The percentage of joiners records set up on AXIS | 67.24% | 70% |
| The percentage of expression of wish and nomination forms processed within 10 working days of receipt | The percentage of forms set up within 10 working days of receipt of all relevant information. | 99.13% | 96% |
| Accurate calculation of benefit figures first time | The accuracy of first time benefits calculations at the checking stage. A quality measure to ensure customers receives correct payments at the earliest opportunity.<br>This indicator can be directly controlled by Pension Staff | 94.43% | 97% |

The administration of the Pension section is split between two teams, the Benefits Team and the Member Record Maintenance Team. The Pension Service Local Performance Indicators represent the main core of the benefits team output but do not cover all the calculations and processes carried out by this team. The indicators do not include a substantial amount of work carried out by the record maintenance team. It is acknowledged that performance levels were not achieved with the following factors affecting the sections performance.

**Retention and recruitment of staff**

- During the year successful recruitment to an existing vacant full-time Pension Officer post took place, with 2 other posts covered by agency workers. A further Pension Officer post was held vacant due to a further re-organisation of ISS.

- A long-term sickness absence

- An internal review of the Pensions Administration was undertaken during 2011/12 and the results were used in the recent ISS restructure which further increased the section staffing, but recruitment has just been successfully completed.

**Office Move and New Ways of Working**

- The Pension section moved to imaged files from hard copy files in 2009/2010 (Civica). There were ongoing system problems and the process is resource heavy, together with senior members of the team involved in the further development of the imaging system.

- During 2011/12 a considerable amount of time has been invested in developing robust information systems, reporting and interfaces between AXIS(e) and Oracle. This work is still ongoing with processes and procedures kept under constant review.

- The Pension Increase programme in Oracle had to be developed in Oracle for implementation in April 2012. This required extensive testing and resources to ensure accuracy of the data produced and resilience for future pension increases.

**Changes to the Local Government Pension Scheme (LGPS) Regulations and State Retirement Age for Women**

Changes to female new state pension age required all affected female pensioner records to be recalculated as part of the Pension Increase requirements; this will have an ongoing impact every year going forward.

There are still significant questions raised by scheme members around the difference between scheme retirement age and state retirement age due to the phased basis of the State Retirement Age for Women.

Constant changes to scheme regulations, in particular transfers, caused backlogs to accumulate.

**Local Government Funding Cuts**

All Local Authorities are under pressure to make huge financial savings. Several areas of the authority have been reviewed and restructured. This impacts the Pension section in two ways:-

- High demand from employees for information and guidance in respect of their pension benefits should they decide to retire earlier than they initially planned or be made redundant

**Academies and Outsourcing**

The pace of conversion of schools to Academies has had a significant affect on both the Pensions and Payroll teams due to the unique employer status of Academies. Academies need continual support and monitoring and should there be any future increase in Academies the staffing resource of the team will have to be further reviewed.

Primary schools are now starting to convert to Academies, which will have a further significant impact in Pensions and Payroll teams.

The level of outsourcing, for both the Council and the Academies, has grown in the last year and is likely to continue to grow. This adds to the work of the Pension Team which has to provide the necessary data for the Actuaries to calculate Bonds and employers rates. If the outsourced function is granted Admitted Body Status this drives further unplanned work to separate out the scheme employers.

With all the above pressures the pension section has been committed to providing a good quality pension service for stakeholders in particular scheme members. Whilst the performance levels were not achieved the number of complaints has been minimal.

**Pension System**

There were several intermittent technical issues with the AVIS(e) pensions system from February to May which impacted on the ability to carry out the required work of pension administration. Although the system is now stable a project is underway to procure a system fit for the future.

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

| | As at 31 March 2012 | As at 31 March 2011 | As at 31 March 2010 | As at 31 March 2009 | As at 31 March 2008 |
|---|---|---|---|---|---|
| Contributors | 5,878 | 6,155 | 6,157 | 5,723 | 5,803 |
| Deferred pensioners | 4,405 | 4,041 | 3,744 | 3,463 | 3,094 |
| Pensioners and Dependants | 5,253 | 5,065 | 4,951 | 4,746 | 4,587 |
| | **15,536** | **15,261** | **14,852** | **13,932** | **13,484** |

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

| | As at 31 March 2012 | As at 31 March 2011 | As at 31 March 2010 | As at 31 March 2009 | As at 31 March 2008 |
|---|---|---|---|---|---|
| Ill Health | 16 | 12 | 8 | 14 | 11 |
| Early Retirements | 224 | 91 | 0 | 0 | 0 |

The age profile of members with five year bandings for the year ended 31 March 2012 follows:

| AGE BANDS | ACTIVES | DEFERRED S | PENSIONERS (OWN RIGHT) | DEPENDANT PENSIONS | TOTAL BY AGE BAND |
|---|---|---|---|---|---|
| 5-9 | 0 | 0 | 0 | 1 | **1** |
| 10-14 | 0 | 0 | 0 | 11 | **11** |
| 15-19 | 15 | 5 | 0 | 12 | **32** |
| 20-24 | 131 | 84 | 0 | 6 | **221** |
| 25-29 | 229 | 253 | 0 | 0 | **482** |
| 30-34 | 341 | 280 | 0 | 1 | **622** |
| 35-39 | 522 | 450 | 3 | 3 | **978** |
| 40-44 | 872 | 750 | 3 | 8 | **1,633** |
| 45-49 | 1,244 | 922 | 10 | 8 | **2,184** |
| 50-54 | 1,138 | 817 | 40 | 19 | **2,014** |
| 55-59 | 836 | 723 | 165 | 29 | **1,753** |
| 60-64 | 449 | 114 | 904 | 49 | **1,516** |
| 65-69 | 90 | 6 | 1,089 | 79 | **1,264** |
| 70-74 | 11 | 1 | 749 | 93 | **854** |
| 75-79 | 0 | 0 | 655 | 146 | **801** |
| 80-84 | 0 | 0 | 470 | 161 | **631** |
| 85-89 | 0 | 0 | 243 | 133 | **376** |
| 90-94 | 0 | 0 | 79 | 56 | **135** |
| 95-99 | 0 | 0 | 16 | 9 | **25** |
| 100-104 | 0 | 0 | 0 | 3 | **3** |
| 105-109 | 0 | 0 | 0 | 0 | **0** |
| **TOTAL** | **5,878** | **4,405** | **4,426** | **827** | **15,536** |

**Contributions to the Fund**

Employees who were eligible to be members of the Fund prior to 31 March 1998 were required to make contributions by deductions from earnings at the rate of 6% for officer staff and 5% for manual staff. As from 1 April 1998, all new entrants to the Fund were required to pay 6% of earnings.

With effect from 1st April 2008 instead of paying a standard contribution rate, as mentioned above, different contribution rates for different pay bands was introduced. These new rates have been designed to give more equality between the cost and benefits of scheme membership. The new rates are between 5.5% and 7.5% of pensionable pay. The rate paid depends on which pay band the member falls into.

The Council is required to make balancing contributions as determined by the Fund's actuary to maintain the solvency of the Fund. The employers' contribution for the London Borough of Havering employees was 22% of salary in 2011/2012 (2010/11 22%). The Council's annual contribution is reviewed every three years. The latest review was based on data as at 31st March 2010 and will effect employer contribution rates for 2011/12, 2012/13 and 2013/14. The next valuation will take place during 2013 and will be based on data as at 31 March 2013.

The table below shows how many members were making contributions to the Fund together with the employers' contributions:

| Contributing employers | Active Members | Contributions from Members £ | Contributions from Employers £ |
|---|---|---|---|
| London Borough Havering (including schools – non teaching staff only) | 4,682 | 5,125,226 | 19,398,363 |
| Homes in Havering | 161 | 324,457 | 1,055,344 |
| Havering College of Further & Higher Education | 231 | 298,176 | 873,841 |
| Havering sixth form college | 77 | 74,793 | 185,138 |
| Drapers Academy | 43 | 49,773 | 115,899 |
| Abbs Cross | 47 | 36,135 | 125,838 |
| Coopers Coborn | 54 | 45,879 | 171,335 |
| The Brittons Academy | 80 | 55,786 | 182,879 |
| Sacred Heart of Mary | 49 | 20,146 | 78,865 |
| Campion School | 80 | 33,600 | 125,586 |
| Hall Mead | 71 | 32,586 | 130,449 |
| St Edwards | 79 | 45,006 | 163,830 |
| Emerson Park Academy | 42 | 22,447 | 85,142 |
| Redden Court | 50 | 26,085 | 106,462 |
| The Albany Academy | 36 | 21,538 | 83,121 |
| Sports & Leisure Management | 62 | 66,024 | 295,249 |
| Morrisons | 30 | 78,208 | 573,771 |
| Citizens Advice Bureau | 2 | 5,401 | 31,562 |
| May Gurney (active transferred to Volker Nov 11) | 0 | 805 | 136,144 |
| KGB Cleaners | 1 | 420 | 1,775 |
| Volker | 1 | 575 | 2,449 |
| **TOTAL** | **5,878** | **6,363,066** | **23,923,042** |

The payment of contributions is monitored on a monthly basis by Pensions Administration. The Council receives a breakdown of individual employee contributions which is reconciled against the payments.

A service manual is distributed to all employers which explains their obligation as an employer in the fund.

All admitted body employers are required to purchase a bond which protects the fund against default payments.

No interest charges for late contributions were applied.

# INVESTMENT POLICY AND PERFORMANCE REPORT

## INVESTMENT POLICY

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.

The Council has in place an Investment Strategy, which consists of two documents – The Statement of Investment Principles and the Funding Strategy Statement.

Statement of Investment Principles - The Fund each year publishes a Statement of Investment Principles (SIP) on the Councils web site in accordance with the requirements of the Local Government Pension Scheme (Management and Investment of Funds ) (Amendment) Regulations 2005. This Statement sets out the Council's policy on a range of matters relating to investments and management of the pension fund. This is produced in conjunction with the Fund's investment advisors. In line with these regulations the administration authority also publishes a statement which shows the extent to which an administrative authority complies with guidance as issued by the Secretary of State. Where it does not comply reasons for non compliance must be disclosed. This is known as the Myners Principles and is published together with the SIP. A copy of the SIP and compliance against the Myners Principles can also be found in the appendices attached to this report.

Funding Strategy Statement – The fund also publishes a Funding Strategy Statement (FSS) in accordance with Regulation 76A of the LGPS Regulations 1997. This encompasses the aims and purposes of the fund and the overall investment strategy with its main purpose being how the pension liabilities are best met going forward. This is produced in conjunction with the Fund's actuary. A copy of the FSS can also be found in the appendices attached to this report.

A review of the Fund's investment strategy took place during the spring/summer of 2008 following an asset liability study undertaken by the Fund's advisors. The main change resulted in the Fund aiming to reduce its asset allocation to bonds and increase its allocation to equities. The mandate with the global bonds' manager was therefore terminated in August 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 both 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 the Pensions Committee considered their next steps. In December 2011 the Pensions Committee interviewed Global Equity Managers and appointed Baillie Gifford, who commenced trading in April 2012.

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

| Manager | Mandate | Value £'000 | Proportion of Total Fund % |
|---|---|---|---|
| Standard Life | Active UK Equities | 90,178 | 22.4 |
| Royal London | Active Investment Grade Bonds | 104,182 | 25.9 |
| UBS | Active 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 | Active Global Equities | 21 | 0.0 |
| Baillie Gifford | Active Global Equities | 0 | 0.0 |
| | Other | 22 | 0.0 |
| | **Total Fund** | **402,319** | **100.00** |

The Fund uses the services of State Street Bank who are the Fund's appointed custodians. They operate a wide range of services but are mainly responsible for the safekeeping and custody of the Fund assets and are responsible for Investment Accounting and Reporting. They ensure that accurate records and certificates of the ownership of stock are maintained and ensure that dividend income and other distributions are received appropriately. They also keep a record of the book costs in the various asset classes and provide a market valuation of the Fund. It is State Street's records that are used to produce the Fund's accounts.

The Fund subscribes to the CIPFA Pensions Network, which aims to support pension practitioners and is dedicated to pension fund bodies, offering services in relation to investment, audit, accounting, administration and governance.

Fund Manager Performance is reported to the Pensions Committee on a quarterly basis. Managers are required to present at the Pensions Committee every six months. On alternate quarters Fund managers meet with officers for a formal monitoring meeting. The exception to this procedure is the Multi Asset (Ruffer) and the passive equity (SSGa) managers who will attend two meetings per year, one with officers and one with the Pensions Committee. If there are any specific matters of concern to the committee relating to the manager's performance, arrangements can be made for additional presentations.

The Fund's investment advisors attend the quarterly Pensions Committee meetings and also produce a quarterly report, including fund manager performance and market commentary.

Voting rights exercised by the Fund managers is included in their quarterly reports and these are made available for the Pensions Committee to consider.

## ASSET ALLOCATION

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

The asset allocation adopted as part of the Statement of Investment Principles (SIP) in November 2011 compared to asset allocation as at 31 March 2012 is as follows:

| **Asset Class** | **Revised Target Allocation as per SIP Nov 11 %** | **Asset Allocation As at 31 March 2011** | **Asset Allocation As at 31 March 2012 %** | **Asset Allocation post transition April 2012 %** |
|---|---|---|---|---|
| UK Equities - Active | 17 | 24 | 22 | 18 |
| Global Equities - Active | 17 | 0 | 0 | 16 |
| UK/Global Equities Passive | 26 | 38 | 36 | 28 |
| Investment Grade Bonds - Active | 20 | 28 | 26 | 22 |
| Property - Active | 10 | 5 | 6 | 6 |
| Multi Asset (All classes) - Active | 10 | 5 | 10 | 10 |
| **Total** | **100** | **100** | **100** | **100** |

During 2011/12 work was commenced to rebalance the Fund in line with the November 2011 Statement of investment Principles:

- In April 2011 funds were withdrawn from the Bonds Manager to fund the increase in funding to the Multi Asset Manager.
- In May 2012 funds were transferred from surplus cash to increase the holdings with the Property Manager.
- In December 2011 the Pensions Committee interviewed Global Equity Managers and appointed Baillie Gifford, who commenced trading in April 2012. This was funded from withdrawing holdings from UK Equities, Bonds and the UK/Global Passive equities.

The Fund will be undertaking a review of its current strategy during 2012/13.

**Largest 10 Direct Asset Holdings in the Fund:**

| | Market Value at 31 March 2012 £m | Proportion of the total investment of the fund % |
|---|---|---|
| BP PLC | 6.68 | 1.66 |
| UK Treasury Index Linked Gilt - matures 2034 | 6.14 | 1.53 |
| HSBC Holdings PLC | 5.04 | 1.25 |
| UK Treasury Index Linked Gilt - matures 2037 | 4.41 | 1.10 |
| UK Treasury Index Linked Gilt - matures 2029 | 4.25 | 1.06 |
| GlaxoSmithKline PLC | 4.21 | 1.05 |
| UK Treasury Index Linked Gilt - matures 2017 | 3.96 | 0.99 |
| Vodafone Group PLC | 3.90 | 0.97 |
| Royal Dutch Shell PLC | 3.77 | 0.94 |
| UK Treasury Index Linked Gilt - matures 2035 | 3.65 | 0.91 |
| **Total** | **46.01** | **11.46** |

**Largest 10 Equity Holdings in the Fund:**

| | Market Value at 31 March 2012 £m | Proportion of the total investment of the fund % |
|---|---|---|
| BP PLC | 6.68 | 1.66 |
| HSBC Holdings PLC | 5.04 | 1.25 |
| GlaxoSmithKline PLC | 4.21 | 1.05 |
| Vodafone Group PLC | 3.90 | 0.97 |
| Royal Dutch Shell PLC | 3.77 | 0.94 |
| Rio Tinto PLC | 3.41 | 0.85 |
| Xstrata PLC | 3.28 | 0.81 |
| Barclays PLC | 2.81 | 0.70 |
| BG Group PLC | 2.45 | 0.61 |
| GKN PLC | 2.41 | 0.60 |
| **Total** | **37.96** | **9.44** |

In addition to the above holdings the Fund also invests in the UBS Triton Property Fund. This is a pooled property fund which means that the Fund pool their assets with other investors in 'unit trusts', the Fund does not hold any direct property holdings. The value of the property unit trusts as at 31 March 2012 is £26.50m (including cash). The Fund also invests in a pooled UK and Global equity fund, the value of which is £142.12m.

## INVESTMENT PERFORMANCE

The Fund uses the services of The WM Company to provide comparative statistics on the performance of the Fund. The performance of the Fund is measured against a tactical and a strategic benchmark.

The tactical benchmark is a combination of all the individual benchmarks set for each manager and is determined according to the type of investments being managed.

Individual manager performance and asset allocation will determine the performance against the strategic benchmark. 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. The main factor in meeting the tactical benchmark is fund manager performance.

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

| | 1 year to 31.03.11 % | 1 year to 31.03.12 % | 3 Years to 31.3.12 % | 5 years to 31.3.12 % |
|---|---|---|---|---|
| Fund Return | 6.3 | 4.2 | 15.3 | 1.5 |
| **Tactical Benchmark** | 8.3 | 4.8 | 15.3 | 4.0 |
| Performance | -1.9 | -0.6 | 0.0 | -2.3 |
| | | | | |
| Fund Return | 6.3 | 4.2 | 15.3 | 1.5 |
| **Strategic Benchmark** | 9.9 | 25.5 | 12.3 | 11.3 |
| Performance | -3.3 | -16.9 | 2.6 | -8.8 |

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

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

Although Stock market values have risen over the year the markets are still very volatile.

Fund Manager Performance is measured against benchmarks and targets as follows:

| Manager and percentage of total Fund awarded | Mandate | Tactical Benchmark | Out performance Target (net of fees) |
|---|---|---|---|
| Standard Life | UK Equities (Active 20%) | FTSE All Share Index | 2% |
| State Street Global Advisors (Account 1) | UK/Global Equities (Passive 15%) | UK - FTSE All Share Index<br>Global (Ex UK) – FTSE all World ex UK | To track the benchmark |
| State Street Global Advisors (Account 2) | UK/Global Equities (Passive 25%) | UK - FTSE All Share Index<br>Global (Ex UK) – FTSE all World ex UK | To track the benchmark |
| Royal London Asset Management (RLAM) | Investment Grade Bonds (Active 25%) | • 50% iBoxx Sterling Non Gilt Over 10 Year Index.<br>• 16.7% FTSE Actuaries UK Gilt Over 15 Years Index<br>• 33.3% FTSE Actuaries Index-Linked Over 5 Year Index | 0.75% |
| UBS | Property (10%) | IPD (previously called HSBC/AREF) All Balanced Funds Median Index | To outperform the benchmark |
| Ruffer LLP | Alternatives- Multi Asset (5%) | UK bank deposit rate | To outperform the benchmark |

The following table compares each Fund Manager performance against their specific benchmark and their performance target for the twelve months ending 31 March 2012:

| | Standard Life | Royal London | UBS | Ruffer | State Street |
|---|---|---|---|---|---|
| Return (performance) | -2.0 | 17.5 | 5.9 | 4.1 | 0.3 |
| Benchmark | 1.4 | 16.8 | 5.7 | 0.9 | 0.2 |
| ***Over/(Under) Performance vs. Benchmark** | **-3.4** | **0.6** | **0.2** | **3.2** | **0.0** |
| | | | | | |
| TARGET | 3.4 | 17.5 | n/a | n/a | n/a |
| *** Over/(Under) Performance vs. Target** | **-5.2** | **-0.04** | **n/a** | **n/a** | **n/a** |

**The figures in the above table are geometric calculations and consequently may not sum.*

Performance against benchmark is only measured at Fund Manager level. Performance is not measured against the asset classes as mandates allocated to Fund Managers mainly match the asset classes.

## SCHEME ADMINISTRATION REPORT

**OVERVIEW**

The Pensions Committee is supported by the administrating authorities' finance and administration services and the associated costs are therefore reimbursed to the administrating authority by the Fund. The costs for these services form part of the Administrative and Investment Management expenses as reported in the Pension Fund Statement of Accounts.

The Administration costs charged to the Fund for the year ending 31 March 2012 is £586,406 (includes audit and actuary fees).

The Council's pension administration section is responsible for all aspects of the Scheduled (including Academies) and Admitted body scheme membership including payment of benefits, processing joiners and leavers, record amendments, scheme employers returns, monitoring and administration of the Council's Additional Voluntary Contributions (AVC) scheme

The Pensions Administration service consists of an establishment of 9 full time equivalent posts.

The key day to day functions of the unit are:

- Processing new members of the scheme
- Dealing with requests from members who wish to transfer their pension into or out of Havering's Fund
- Administering death benefits for scheme members
- Bringing pensions into payment on retirement or early retirement
- Providing estimates for members/managers
- Assisting members who wish to increase their pension provision through AVC's or ARCs (replaces added years and is to provide added pension)
- Processing leavers with a refund of contributions or deferred benefits
- Updating the pensions computer system with changes to members details
- Reviewing and monitoring 3rd tier ill-health retirements
- Monitoring and recording scheduled and Admitted body contributions for bodies that do not utilise the Havering payroll
- Supporting outsourcing and Academies
- Bi-annual National Fraud Initiative (NFI) compliance
- Ensuring continual data cleansing in preparation for the next scheme valuation
- Preparation for auto-enrolment
- Preparation for the introduction of the 2014 scheme changes

The Finance service that supports the Fund consists of an establishment of 1.5 full time equivalent posts.

Havering has continued to have a close working relationship with the London Borough of Redbridge. Redbridge host and support the AXIS(e) system used for pensions administration. We also share newsletters and the "pension scheme members" website.

Havering is leading on the work agreed as part of the London Centre of Excellence project, on the production of performance indicators (PIs) for Pensions Administration across London. The PIs were collected for the first time in 2007/08 and Havering has been co-ordinating all the statistics to produce an inaugural London wide picture on performance in Pensions Administration.

Havering has also undertaken partnership working with the London Pension Fund Authority which has developed a "pension scheme members" website for the borough, to assist in its pension sharing across London. This website holds information on the LGPS including previous newsletters, a scheme guide and various factsheets. The website was launched in spring of 2011 via a newsletter to all scheme members. The website is currently under review to improve the functionality of the site, also with a view to incorporating member self service into their own pension record.

The business case to procure an upgraded pensions administration system is ongoing. The AVIS(e) system currently used will not be supported for additional functionality post the 2014 pension changes.

Pensions Administration has participated in the CIPFA Benchmarking Club this year, this activity used to be carried out but ceased in prior years due to conflicting priorities. The results of the benchmarking demonstrate that the cost of administration for this borough is £24 per member against a London Authorities average of £27 per member.

**Internal Dispute Resolution Procedure (IDRP)**

Any Internal disputes goes firstly to the Council's Actuaries and then to the Pensions Panel which comprises of Heads of Services from Internal Shared Services, Finance and Legal. The Team Leader for Pensions Administration sits on the panel in an advisory role.

There was 1 case taken to IDRP, which went to first and second stage and was turned down at both stages.

**Whistle Blowing**

The Pension Fund complies with the whistle blowing requirements of the Pension Act that came into force on the 6 April 2005. It urges anyone to inform the correct authorities of any known wrong doings. The process for reporting breaches of the law to the Pension's Regulator is available on the council's website at: www.havering.gov.uk and follow the links 'Council and Democracy', 'Pension Fund'.

No breaches were reported during 2011/12.

# ACTUARIAL REPORT ON FUNDS

## London Borough of Havering Actuarial Statement for 2011/12

**London Borough of Havering Pension Fund ("the Fund")**

This statement has been prepared in accordance with Regulation 34(1) 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.

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 my 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:

| Financial assumptions | 31 March 2010 | |
|---|---|---|
| | % p.a. Nominal | % p.a. Real |
| Discount rate | 6.3% | 3.0% |
| Pay increases * | 4.8% | 1.5% |
| Price inflation/Pension increases | 3.3% | - |

** plus an allowance for promotional pay increases. Short term pay growth was assumed to be 1% p.a. for 2010/11, 2011/12 and 2012/13, 3.3% for 2013/14 and 2014/15 before reverting to 4.8% p.a. 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.*

**Experience over the year since April 2010**

The funding level is likely to have worsened since March 2010. The reasons for this are:

i. Total investment returns were lower than the long term assumption made at the 2010 valuation;

ii. There has been significant fall in government bond yields (meaning that the nominal discount rate has decreased). This has been partially offset by a decrease in the markets expectations for long term inflation (resulting in a decrease in the pension increase assumption) but overall there has been an increase in the real discount rate (the nominal discount rate net of inflation). This will have lead to an increase in the value placed on the liabilities.

Barry McKay
Fellow of the Institute and Faculty of Actuaries
For and on behalf of Hymans Robertson LLP
18 October 2012

Hymans Robertson LLP
20 Waterloo Street
Glasgow
G2 6DB

## GOVERNANCE COMPLIANCE STATEMENT overview

**Governance Compliance Statement**

Under Regulation 31 of the Local Government Pension Scheme (Administration) Regulations 2008, administering authorities are required to prepare publish and maintain statements of compliance against a set of practice principles on scheme governance and stewardship.

The Governance Compliance Statement sets the following:

- Arrangements for delegation of decisions regarding the Fund
- Terms, structure and procedures of the delegation
- Frequency of meetings
- Whether there are representatives of employing authorities

The compliance principles are not mandatory but suggested best practice; however the Fund must explain the reasons for non compliance if applicable in the statement.

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

The Governance Compliance statement is also available on the Council's website at www.havering.gov.uk. (Within 'Council and Democracy', 'Pension Fund').

**MEMBER INVOLVEMENT**

**Training and Development**

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

It is important that all members of the committee are adequately trained and briefed to achieve the terms of reference of the Pensions Committee. Training and development took place over the year to ensure that Members of the Committee were fully briefed in the decisions they were taking.

Training and development took place during 2011/12 to ensure that members of the committee were fully briefed in the decisions they were taking.

Members receive briefings and advice from the Fund's Investment adviser at each committee meeting.

The Fund is a member of the CIPFA Pensions network which gives access to an extensive programme of events, training/workshops, weekly newsletters and documentation, including briefing notes on the latest topical issues.

CIPFA's Knowledge and Skills self assessment training questionnaire was distributed to members in January 2011. Training will be targeted as appropriate.

The Pension Fund Accountant also attends quarterly forum meetings with peers from other London Boroughs; this gives access to extensive opportunities of knowledge sharing and benchmarking data.

Training logs are maintained and attendance and coverage in the table that follows:

**Pension Committee Member Training and development 2011/12:**

| DATE | TOPIC COVERED | ATTENDED BY |
|---|---|---|
| 26 May 2011 | RLAM Keynote Briefing "Tougher Times Ahead – The continuing case for active management" –delivered by Royal London the fund's bond manager | Cllr Munday<br>Cllr Tucker |
| 9 February 2012 | LAPF Strategic Investment Forum Presentation | Cllr Munday |
| 14 February 2012 | CIPFA and Hymans jointly delivered training covering topics in the Knowledge and Skills framework:<br>o Background to LGPS<br>o Governance Framework<br>o Actuarial methods, standards & practices<br>o Pension Accounting & Audit Standards<br>o Financial markets & product knowledge<br>o Investment Strategy | Cllr Munday<br>Cllr Ramsey<br>Cllr D.White<br>Cllr Ower<br>Marshajane Thompson (sub for John Giles) (UNISON)<br>Debbie Ford |

**Key reports arising in the period**
All the pension committee agenda and minutes can be found on the Council's website at: www.havering.gov.uk and follow the links 'council and democracy', 'meetings', 'pensions committee'.

The Committee met a number of times during 2011/12 and the coverage and attendance at those meetings are shown in the following table:

| DATE | TOPIC | ATTENDED BY |
|---|---|---|
| June 2011 | o Agreed Business Plan/ Report on the work of the Pensions Committee 2010/11<br>o Pension Fund Performance Monitoring for the quarter ending 31 March 2011<br>o Reviewed and updated the Funding Strategy Statement as revised during the Valuation results. | Cllr Eric Munday (chair)<br>Cllr Damian White (vice chair)<br>Cllr Roger Ramsey<br>Cllr Fred Thompson (sub for Melvin Wallace)<br>Cllr Ron Ower<br>Cllr Denis Breading<br>John Giles (UNISON) |
| September 2011 | o Pension Fund Performance Monitoring for the quarter ending 30 June 2011<br>o Agreed Pension Fund Accounts 2010/11 | Cllr Eric Munday (chair)<br>Cllr Damian White (vice chair)<br>Cllr Roger Ramsey<br>Cllr Melvin Wallace<br>Cllr Clarence Barrett (sub for Ron Ower)<br>Cllr Denis Breading |
| November 2011 | o Reviewed Pension Fund's Governance Compliance Statement 2011<br>o Noted Whistleblowing Report<br>o Reviewed the services of the Pension Fund Custodian<br>o Agreed Pension Fund Annual Report – Year ended 31 March 2011<br>o Reviewed and updated the Statement of Investment Principles | Cllr Eric Munday (chair)<br>Cllr Georgina Galpin (sub for Damian White)<br>Cllr Roger Ramsey<br>Cllr Melvin Wallace<br>Cllr Ron Ower |
| December 2011 (SPECIAL) | o Interviewed Global Equities Manager from Framework and appointed Baillie Gifford | Cllr Eric Munday (chair)<br>Cllr Fred Thompson (sub for Damian White)<br>Cllr Melvin Wallace |
| December 2011 (SPECIAL) | o Interviewed potential new Investment Fund Advisors and appointed Hymans Robertson | Cllr Eric Munday (chair)<br>Cllr Fred Thompson (sub for Damian White)<br>Cllr Melvin Wallace<br>Cllr Ray Morgan (sub for Ron Ower) |
| December 2011 | o Pension Fund Performance Monitoring for the quarter ending 31 September 2011<br>o Admitted Volker as an Admitted Body in the Pension Fund | Cllr Melvin Wallace (chaired the meeting)<br>Cllr Fred Thompson (sub for Eric Munday)<br>Cllr Fred Osborne (sub for Damian White)<br>Cllr Roger Ramsey<br>Cllr Ron Ower<br>John Giles (UNISON) |
| March 2012 | o Pension Fund Performance Monitoring for the quarter ending 31 December 2011 | Cllr Eric Munday (chair)<br>Cllr Damian White (vice chair)<br>Cllr Roger Ramsey<br>Cllr Georgina Galpin (sub for Melvin Wallace)<br>Cllr Ron Ower<br>Cllr Jeffrey Tucker<br>Cllr Pat Murray<br>John Giles (UNISON)<br>Andy Hampshire (GMB) |

The fund has adopted a Business Plan/Report on the work of the Pensions Committee which also sets out the work undertaken by the Committee during 2011/12 and the plan of work for the

following year (2012/13).This also includes a Training and Development Plan which is linked to the Pension Fund Coverage of meetings.

During 2012/13 members will be completing CIPFA's Knowledge and Skills Framework which will form supplementary training covered as part of the meetings.

Full coverage of the Pensions Committee work and training plan can be found on the Council's website: www.havering.gov.uk within 'Services' 'Council and Democracy', 'council budgets & spending' 'Pension Fund')

**CONFLICT OF INTEREST**

At the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda. During 2011/12 there were no conflicts of interests declared.

## FUND ACCOUNT AND NET ASSETS STATEMENT

### Havering 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 Assets Statement**

| 31 March 2011 £'000 | | Note | 31 March 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 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, 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.

***(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 (AVCs) of £80,030 (£99,053 in 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

| | 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 | - | 117 |
| **Other Income** | | |
| Foreign Exchange Profits/(Losses) | (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 31 March 2011 | Purchases during the year and derivative payments | Sales during the year and derivative receipts | Change in Market Value during the year | Cash & Other Movements | Market Value at 31 March 2012 |
|---|---|---|---|---|---|---|
| | £'000 | £'000 | £'000 | £'000 | £'000 | £'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 | 0 | 0 | - | 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** | **0** |
| **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 | 0 |
| **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 £'000** | **Loans and receivables £'000** | **Financial liabilities at amortised cost £'000** | | **Designated as fair value through fund account £'000** | **Loans and receivables £'000** | **Financial liabilities at amortised cost £'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 | |
| | | | Other investment balances | | | |
| | 12,419 | | Debtors | | 6,865 | |
| **375,464** | **15,074** | **-** | **Financial Assets Total** | **397,718** | **10,769** | **-** |
| | | | **Financial Liabilities** | | | |
| (336) | | | Derivative contracts | (23) | | |
| | | | Other investment balances | | | |
| | | (1,569) | 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 £'000** | **2010/11 £'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** | **Financial assets** | **£'000** | **£'000** |
| 375,464 | 375,464 | Fair value through fund account | 397,718 | 397,718 |
| 15,074 | 15,074 | Loans & receivables | 10,769 | 10,769 |
| **390,538** | **390,538** | **Total financial assets** | **408,487** | **408,487** |
| | | **Financial liabilities** | | |
| (336) | (336) | Fair value through fund account | (23) | (23) |
| (1,569) | (1,569) | Financial liabilities at amortised cost | (4,959) | (4,959) |
| **(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 compromise 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 provide an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which fair value is observable.

| | Quoted Market price | Using observable inputs | With significant unobservable inputs | |
|---|---|---|---|---|
| **Values at 31 March 2012** | **Level 1 £'000** | **Level 2 £'000** | **Level 3 £'000** | **Total £'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** |

| | Quoted Market price | Using observable inputs | With significant unobservable inputs | |
|---|---|---|---|---|
| **Values at 31 March 2011** | **Level 1 £'000** | **Level 2 £'000** | **Level 3 £'000** | **Total £'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 Council, as 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 administrating 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 | Change to net assets available to pay benefits | |
|---|---|---|---|
| | | +10.3% | -10.3% |
| | £'000 | £'000 | £'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 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 | Change in year in the net assets available to pay benefits | |
|---|---|---|---|
| | | +100BPS | -100BPS |
| | £'000 | £'000 | £'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 Council, as administering authority therefore takes steps to ensure that the Fund has adequate cash resources to meet its commitments. The 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 administered by Havering Council. Consequently there is a strong relationship between the Council and the 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 Fund issues has undertaken any declarable material transactions with the 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 Fund in respect of employer's contributions.

Part of the 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 Pensions Committee are in receipt of pension benefits from the Havering Pension Fund.

Each member of the Pensions 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 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 Fund and payment will only be triggered in the event of employer default.

## 19. Contingent Liabilities

The 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 funding purposes, 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 disclosure notes included in the Statement of Accounts, in particular those assumptions which has been used by the Actuary in order to determine the pensions liability and contribution rate, 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 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.<br>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. |

# Statement of Responsibilities

### The Council's Responsibilities

The Council is required to:

Make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Group Director Finance and Commerce.

Manage its affairs to secure economic efficient and effective use of resources and safeguard its assets.

Approve the Pension Fund Statement of Accounts.

Councillor Melvin Wallace
Chairman, Pensions Committee
Date: ………………………………..

### The Group Director Finance and Commerce's Responsibilities

The Group Director Finance and Commerce is responsible for the preparation of the Council's Statement of Accounts in accordance with proper accounting practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ("the code of practice").

In preparing this Pension Fund Statement of Accounts, based on enquiries of the former Group Director, the current Group Director Finance and Commerce can confirm that they:

Selected suitable accounting policies and then applied them consistently.

Made judgements and estimates that were reasonable and prudent.

Complied with the code of practice.

The Group Director Finance and Commerce has also:

Kept proper accounting records which were up to date.

Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Pension Fund Statement of Accounts presents the true and fair financial position and transactions of the Authority at 31 March 2012 and its income and expenditure for the year ended 31 March 2012.

Andrew Blake-Herbert
Group Director Finance and Commerce
Date: ……………………………….

## Independent auditors' report to the Members of the London Borough of Havering

We have audited the pension fund accounts included in the Pension Fund Annual Report of the London Borough of Havering for the year ended 31 March 2012 which comprise the fund account, the net assets statement and the related notes. The financial reporting framework that has been applied in their preparation is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

**Respective responsibilities of the Responsible Finance Officer and the auditor**
The Responsible Financial Officer is responsible for the preparation of the pension fund accounts and for being satisfied that they give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12. Our responsibility is to audit and express an opinion on the pension fund accounts in accordance with Part II of the Audit Commission Act 1998, the Code of Audit Practice 2010 – Local Government Bodies issued by the Audit Commission and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for London Borough of Havering members as a body in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies – Local Government, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**Scope of the audit of the financial statements**
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by London Borough of Havering; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**
In our opinion the pension fund's accounts:

- give a true and fair view, in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12, of the financial transactions of the Pension Fund during the year ended 31 March 2012, and the amount and disposition of the Fund's assets and liabilities as at 31 March 2012; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

**Opinion on other matters**

In our opinion, the information given in the Annual Report for the financial year for which the accounts are prepared is consistent with the accounts.

Julian Rickett
for and on behalf of PricewaterhouseCoopers LLP
Appointed Auditors
London, SE1 2RT
October 2012

**Notes:**

(a) The maintenance and integrity of the London Borough of Havering website is the responsibility of senior officers; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

## BENCHMARKING REPORT

Under regulation 34(1) (g) and in accordance with 65 (2) (b) of the 2008 Administration Regulations, an administrative authority has the option to include an annual report dealing with the funds position with regard to benchmarking administration performance. In line with regulations and after consideration, the administrative authority has not adopted a Pension Administration Strategy. This option continues to be reviewed.

Although the Administrative Authority has not adopted an Administration strategy it has produced a document that covers the Administrative Procedures for Employing Authorities. This document is distributed to Employing Authorities and sets out service standards and outlines the employer's responsibilities to ensure that proper records of staff are kept so that the right contributions are paid and staff receive the benefit to which they are entitled when they leave employment.

The Administrative Authority does report the benchmarks to its investment and these can be found in the Investment Policy and Performance report.

## FUNDING STRATEGY STATEMENT - overview

The Administering Authority produces a Funding Strategy Statement (FSS) which encompasses the aims and purposes of the fund, and the overall investment strategy. The FSS was reviewed as part of the 2010 valuation results and updated in March 2011.

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

This statement is also available on the Council's website at **www.havering.gov.uk**. (Within 'Services' 'Council and Democracy',' Council budgets & spending' 'Pension Fund')

The Council undertakes regular reviews of the above statement and will consider any comments you may have for future reviews. Please forward comments to the contact point designated at the back of the report.

## STATEMENT OF INVESTMENT PRINCIPLES - overview

The Local Government Pension Scheme regulations require the administrating authority to prepare and publish a Statement of Investment Principles (SIP). This Statement sets out the Council's policy on a range of matters relating to the investments and management of the Pension Fund and is regularly reviewed and updated.

The statement of Investment principles must cover the Fund's policy as follows:

- The types of investments held
- The balance between different types of investments
- Risk
- The expected return on investments
- The extent to which social, ethical or environmental considerations effect investments.

A report commissioned by the Government, 'The Myners Report', recommended ten principles of best practice in managing Pension Fund investments. The Council's SIP outlines the Pension Fund's compliance with these principles.

Statutory Instrument 2002 No.1852 requires that London Borough of Havering, administering authority of the Havering Pension Fund, publish details of the extent to which the fund complies with the ten principles identified as indicators of best practice in the Myners' Review of Institutional Investment.

In 2007 HM Treasury sponsored the NAPF to conduct a review of progress made throughout the pensions industry since the introduction of the Myners principles in 2001. The resultant report 'Institutional Investment in the UK: Six years on' was followed by a wide consultation exercise culminating in the original ten principles being replaced by six new principles.

The new principles were launched in October 2008 and HM Treasury and the Department for Work and Pensions jointly commissioned by the Pensions Regulator to oversee an Investment Governance Group were given the task of implementing the new principles across all UK pension funds.

There is an Investment Governance sub-group especially for the LGPS (including representatives of CLG and CIPFA) who have amended the principles to fit the LGPS. CIPFA published a guide to the application of the Myners Principles 'investment decision making and disclosure' in December 09. Information on how Havering has complied with these six principles is included as an appendix in the Statement of Investment Principles.

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

This SIP and the Myners' compliance table have also been published on the Council's website at **www.havering.gov.uk**. (Within 'Service' 'Council and Democracy', 'Council budgets & spending', 'Pension Fund').

The Council undertakes regular reviews of the above statement and will consider any comments you may have for future reviews. Please forward comments to the contact point designated at the back of the report.

## COMMUNICATIONS POLICY STATEMENT- overview

Regulation 67 of the Local Government Pension Scheme Administration Regulations 2008 requires the Administration Authority to prepare and publish a written statement covering communications with scheme members and employing authorities.

The statement must set out the policy concerning:

- communications with members, representatives, prospective members and employing authorities
- format, frequency and method of distributing such information or publicly.

This statement is reviewed periodically and a revised Communications Policy Statement will be submitted to the Pensions Committee for approval in December 2012. A review of how the current Communication Policy Statement has been delivered is shown below.

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

This Statement has also been published on the Council's website at **www.havering.gov.uk**. (Within 'Services', 'Council and Democracy', 'council budgets & spending' 'Pension Fund').

**Communication Policy Delivery**

| **Policy Commitment** | **Delivery** |
|---|---|
| **Pension Committee Members** | |
| Admitted and Scheduled Bodies represented at the Pension Committee meetings | Represented by David Holmes, Havering College of Further and Higher Education |
| **Scheme Members** | |
| Internet – establishing an extensive internet area containing Scheme details, Scheme leaflets etc. There will also be links to other organisations relevant to Scheme members | Achieved and launched in Spring 2011 Newsletter. Web address link is http://www.yourpension.org.uk/handr |
| Annual Report. | Achieved |
| Newsletters issued to members of the Fund | Achieved |
| Benefits Statements | Achieved where possible |
| Scheme Literature | Achieved and also available on the Fund website |
| Pay Advices | All pensioners were issued with at least 2 pay advices during 2011/12 and P60 information. |
| Correspondence by surface mail and e-mail to receive and send. | Achieved |
| Our Aspirations, a password security system which allows Scheme members to transact a significant proportion of their pensions business without having to enter into formal correspondence | Not delivered, a continuing aspiration |
| Pension Roadshows<br>- Roadshows<br>- Corporate Induction<br>- Pre-retirement courses | Achieved<br>- as and when required<br>- as and when required<br>- regularly delivered |
| Prospective Scheme Members | |
| Scheme Booklet issued to all new prospective scheme members | Achieved |
| Intranet contains specific information for non-joiners and the process for "opt out" | Achieved by link to internet site |
| Work with relevant Trade Unions | Achieved |
| Pensions Roadshows | See above, achieved |
| **Scheme Employers** | |
| Regular updates | Achieved when required |
| Employers Guide | Achieved |

| Policy Commitment | Delivery |
|---|---|
| | |
| Internet | Not delivered as a microsite, but access to the Fund website is available |
| Site Meetings | Achieved as required |
| **Pensions Fund and Administration Staff** | |
| Service Management Teams | Achieved |
| Team Meetings | Achieved |
| Group Management Team Meetings – Finance and Commerce | Achieved |
| Intranet | Achieved |
| Induction | Achieved |
| Internet | Achieved |
| E-mails | Achieved |
| Pensions Manager | Delivered |
| Pension Fund Accountant | Delivered |
| **Investment Fund Managers** | Regular contact is maintained |
| **Other Bodies** | |
| Trade Unions | Trade Unions to deliver |
| Seminars | Achieved |
| Data Protection | Achieved |

## CONTACT POINTS FOR FURTHER INFORMATION

If you have any queries on the benefits or costs of membership of the Pension Fund please contact:

Pensions Administration
Central Library, 2nd Floor
Park End Road
Romford
RM1 3AR

Telephone: 01708 432978/ 2981/ 2192

Email: pensions@havering.gov.uk

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

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

Telephone: 01708 432569

Email: debbie.ford@havering.gov.uk

**Other useful addresses:**

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

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

The Pension Service website: www.thepensionservice.gov.uk

# APPENDICES

Havering
LONDON BOROUGH

PENSION FUND

GOVERNANCE STATEMENT

UPDATED NOVEMBER 2011

1. The Council is the Administering Authority of the Pension Fund. The council has delegated to the Pensions Committee various powers and duties in respect of its administration of the fund.

**2. Constitutional Arrangements**

Under the Council's Constitution the duties and terms of reference of the Pension Committee are as follows:

To consider and agree the investment strategy and statement of investment principles for the pension fund and subsequently monitor and review performance.

Where appropriate and above staff delegation levels to recommend staff to invite tenders and award contracts for actuaries, advisers and fund managers or other related investment matters.

To appoint and review the performance of advisers and investment managers for Council and pension fund investments.

To take decisions on those matters not to be the responsibility of the Cabinet under the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 relating to those matters concerning the Local Government Pension scheme.

**3. Current Membership of the Pension Committee**

The Pension Committee currently consists of seven councillors listed below:

| Conservative Group (4) | Residents' Group (1) | Independent Residents (1) | Labour (1) |
|---|---|---|---|
| Eric Munday (Chairman)<br>Damian White (Vice Chairman)<br>Melvin Wallace<br>Roger Ramsey | Ron Ower | Jeffery Tucker | Denis Breading |

Three Members constitute a quorum.

The staff trade union may appoint two representatives, entitled to attend and speak at meetings of the Pension Committee. They possess no voting powers. These representatives are however entitled to remain within the Committee, should the public be excluded on the grounds that exempt information is to be considered.

Scheduled and Admitted bodies may appoint one representative, entitled to attend and speak at meetings of the Pensions Committee on their behalf. No voting rights are currently assigned to this representative but will be kept under review.

The Committee obtains and considers advice from the authority's officers, and as necessary from the fund's appointed professional advisor, actuary and performance measurers who also attend the meetings as and when required.

Longevity in membership of the Committee is encouraged in order to ensure that expertise is maintained within. The Council recommend that the membership of the Pension Committee remain static for the life of the Council in order that members are fully trained in matters relating to investment, unless exceptional circumstances require a change. Furthermore substitute members are expected to have also been trained.

Day to day management of the fund is delegated to the Group Director Finance and Commerce.

The Committee is supported by the Group Director of Finance and Commerce and the Assistant Chief Executive Legal and Democratic Services. The Head of Internal Shared Services has the responsibility to administer the Council's pension fund.

## 4. Training/Reimbursement

An annual training plan is submitted to the Pensions Committee for approval. Committee Members receive in depth training on a wide range of topics. Specific training is given on specific investment topics prior to any key decisions being taken. This approach ensures that important decisions are taken whilst training is still fresh in Members minds.

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

## 5. Whistle Blowing

The Pension Committee comply with the Whistle Blowing requirements of the Pension Act 2004. It urges anyone to inform the correct authorities of any known wrong doings.

## 6. Diary

The Committee meets five times a year and occasionally holds extra meetings if required.

## 7. Further Trustee Responsibilities on Governance and Stewardship

Trustees are encouraged to look beyond administration procedures to really understand the key risks associated with all the functions and activities of the scheme. They are expected to consider risk management and stewardship in broad terms. Key risks include:

- Risk of fraud
- Corporate risk – risk of deterioration in the strength of employer covenant
- Funding and Investment risk – inappropriate investment strategies (one example of this could be risk of a mismatch of assets and liabilities)
- Compliance of Regulatory risk – risk of failure to comply with scheme rules and legislation

The further practical steps undertaken to cover these risks are as follows:

- The Statement of Investment Principles includes procedures to undertake a risk management review, and ensures terms of reference of delegations cover all key responsibilities.

- There are codes of conduct in place which ensure there is a process in place that considers potential conflicts of interest, with clearly identified steps to mitigate the likelihood or protocols if conflict occurs.

- The Pension Committee periodically sets out a business plan for the year.

## 8. Accountability and publication of information

Details of the Pension Committee meetings are published on the Council's website together with agendas and minutes. The meetings of the Pension Committee are held at the Town Hall and are open to the public.

Scheduled and Admitted bodies are directed to the agenda and minutes published on the Council's website and are notified in writing of any major issues.

An Annual Pension Fund Report and Accounts is published and circulated to all council members, reporting on the activities and investment performance of the fund. The report also includes the meetings held and details of matters considered.

## 9. Reviewing and Updating

As well as undertaking an annual review the Council will review the policy as and when material changes occur.

## 10. Compliance table

A table is appended to this document and shows the extent of compliance with guidance given by the Sectary of State.

| | PRINCIPLE | HAVERING POSITION |
|---|---|---|
| **A** | **<u>Structure</u>**<br>a. The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council. | **Full compliance**.<br>Duties and terms of reference are laid out in the Councils constitution (Part 3) and states that management of the pension fund lies with the Pensions Committee.<br><br>Sections 2 and 3 of the Governance Compliance Statement refer. |
| | b. That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the committee. | **Full compliance.**<br>Admitted/Scheduled bodies representatives may appoint one representative to attend and speak at committee meetings. The staff Trade Unions may appoint two representatives to attend and speak at meetings.<br><br>There is no secondary committee.<br><br>Section 3 of the Governance Compliance Statement refers. |
| | c. That where a secondary committee or panel has been established, the structure ensures effective communication across both levels. | No secondary committee or panel has been established. |
| | d. That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel. | No secondary committee or panel has been established. |

| | PRINCIPLE | HAVERING POSITION |
|---|---|---|
| **B** | **Representation**<br>a. That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:<br>i) employing authorities (including non-scheme employers, e.g. admitted bodies); | i) **Full compliance** - A position has been established for Admitted/Scheduled bodies' representative to be a member of the Pensions Committee. This position was filled in September 2008.<br>Supplementary to the above stakeholders are consulted for their views with regard to various policies and are directed to papers and reports held on the Council's website. |
| | ii) scheme members (including deferred and pensioner scheme members), | ii) **Full compliance** – via union representation |
| | iii) where appropriate, independent professional observers, and | iii) **Non compliance** – The Pension Committee have considered this and decided that it is not appropriate to appoint an independent observer on the basis that the current monitoring arrangements are sufficient for the size of the fund. |
| | iv) expert advisors (on an ad-hoc basis) | iv) **Full compliance** – The fund has appointed an Investment Advisor, an Actuary and Performance Measurers, who attend meetings as and when required.<br><br>Section 3 of the Governance Compliance Statement refers. |

| | PRINCIPLE | HAVERING POSITION |
|---|---|---|
| **C** | <u>**Selection and role of lay members**</u><br>a. That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee. | **Full compliance.**<br>Duties and terms of reference are laid out in the Councils constitution and states that management of the pension fund lies with the Pensions Committee.<br><br>Sections 2 and 3 of the Governance Compliance Statement refer. |
| | b. That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda. | **Full compliance.**<br>Declarations of interest are always an agenda item at the Pension Committee meetings.<br><br>Section 7 of the Governance Compliance Statement refers. |
| **D** | **Voting**<br>a. The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees. | **Partial compliance**.<br>The Governance Compliance Statement is clear about voting rights but currently does not include justification for not extending voting rights to each body.<br><br>**Going forward** – Pension Committee members to review whether to extend voting rights to the co-opted member or to provide justification for not extending voting rights.<br>Section 3 of the Governance Compliance Statement refers. |

| | PRINCIPLE | HAVERING POSITION |
|---|---|---|
| **E** | **<u>Training/Facility time/Expenses</u>** | |
| | a. That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. | **Full compliance.**<br>Member's expenses and allowances are laid out in the Council's Constitution (Part 6).<br><br>There is a clear policy that a training plan is developed but consideration is given to prioritise training around the issues that may require decisions in the forthcoming year. |
| | b. That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum. | **Full compliance**.<br>As above. |
| | c. That the administrating authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken | **Full compliance.**<br><br>As above. A training plan is being developed and will be agreed by members of the Pensions Committee.<br>All committee members are offered training.<br>A log of training is maintained and records attendance and training undertaken.<br><br>Section 4 of the Governance Compliance Statement refers. |

| | PRINCIPLE | HAVERING POSITION |
|---|---|---|
| **F** | **Meetings (frequency/quorum)** | |
| | a. That an administering authority's main committee or committees meet at least quarterly | **Full compliance**.<br>The Pension Committee meets five times a year and occasionally holds extra meetings if and when required.<br>Sections 2, 3 and 6 of the Governance Compliance Statement refer. |
| | b. That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the committee sits. | No secondary committee or panel has been established. |
| | c. That an administration authority who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which interests of key stakeholders can be represented. | **Full compliance.**<br>Membership on the pensions committee has been extended for one representative to serve all admitted/scheduled bodies.<br><br>The current forums for which stakeholders interests can be represented are:<br>• Through invitation to committee meeting<br>• Written correspondence – employers are invited for comments via letters and email as part of any consultation process, including proposed policy changes.<br>• Havering is one of the partnerships working with the London Pensions Fund Authority, who have produced a website for scheme members to use. A newsletter to launch the website was distributed to members of the scheme in the spring 2011. Factsheets and scheme communications are published on this website along with contact details at Havering for members to contact with their views. |

| | PRINCIPLE | HAVERING POSITION |
|---|---|---|
| **G** | **<u>Access</u>** | |
| | a. That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee. | **Full compliance**.<br>Committee papers are sent to members at least 7 days prior to the meeting and non confidential papers are published on the Council's website.<br><br>Section 8 of the Governance Compliance Statement refers. |
| **H** | **<u>Scope</u>** | |
| | a. That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements | **Full compliance**.<br>The Committee already considers a wider range of pension issues.<br><br>Section 7 of the Governance Compliance Statement refers. |
| **I** | **<u>Publicity</u>** | |
| | a. That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements. | **Full compliance.**<br>Governance arrangements are published on the council's website and comments are invited from stakeholders.<br><br>Section 8 of the Governance Compliance Statement refers. |

Havering
LONDON BOROUGH

# HAVERING PENSION FUND

# COMMUNICATION STRATEGY

# NOVEMBER 2010

## COMMUNICATION STRATEGY

## INTRODUCTION

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

There are six distinct groups with whom the Fund needs to communicate:

- COMMITTEE MEMBERS
- SCHEME MEMBERS
- PROSPECTIVE SCHEME MEMBERS
- SCHEME EMPLOYERS
- INVESTMENT FUND MANAGERS
- OTHER BODIES

Set out in this document are the mechanisms which are used to meet those communication needs.

The fund aims to use the most appropriate communications medium for the audiences receiving the information. This may involve using more than one method of communication,

## PENSION COMMITTEE MEMBERS

The Fund management and administration decisions have been delegated under the Council's constitution to the Pensions Committee.

Knowledge building and training is provided via the Fund's Officers, advisors and external experts with regards to investment and administration matters.

Admitted and Scheduled Bodies who have members in the Fund are represented at the Pensions Committee meetings by one of the employers of the fund who acts on behalf of all other employers. The Trade Unions are also invited, who attend meetings on an observer basis, but whose views are given equal weighting. The Trade Union representatives are also Scheme members.

The work of the Trade Union members is supported by Trade Union representatives.

## SCHEME MEMBERS

**Internet**
The Fund is currently establishing an extensive internet area containing Scheme details, Scheme leaflets etc. There will also be links to other organisations relevant to Scheme members, e.g. employers, AVC providers, employers' organisations etc.

**Pension fund Annual Report and Accounts**
The Pension fund communicates with its members via publication of an Annual Report which is available on the Council's website.

A copy of the Fund's accounts are available on the Council's website and included in the Pension Fund's Annual Report.

**Newsletters**
Newsletters are issued to members of the Fund, as changes to the scheme occur, and covers current pension topics within the LGPS, specific issues for Havering and the pensions industry in general.

**Benefits Statements**
An Annual Benefit Statement is sent direct to the home address of all members who are contributing to the Fund at the previous financial year end.

Benefit Statements are also sent direct to the home address of deferred members where a current address is known.

**Scheme Literature**
An extensive range of Scheme literature is produced by the Administering Authority and is supplied to employing bodies and Scheme members directly.

**Pay Advices**
The Fund only issues a pay advice to Scheme pensioners if their net pay varies by more than £1.00. This is utilised as a communication mechanism as well, e.g. Pensions Increase and P60 information is communicated using this medium on an annual basis.

**Correspondence**
The fund utilises both surface mail and e-mail to receive and send correspondence.

**Our Aspirations**
A password security system which allows Scheme members to transact a significant proportion of their pensions business without having to enter into formal correspondence.

**Pension Roadshow**
The Fund stages Pensions Roadshows as and when required to communicate with scheme members on changes to the scheme or promote the scheme or specific aspects of it.

Additionally, Pensions Administration Staff attend Pre-retirement courses run by the Council to provide information to staff nearing retirement.

## PROSPECTIVE SCHEME MEMBERS

**Scheme Booklet**
All new prospective Scheme members will be provided with a Scheme booklet at the time of their appointment to the London Borough of Havering.

**Intranet**
The Fund's Intranet area will contain specific information for non-joiners. It will highlight the process by which a member should be given the relevant information to make an informed choice, as well as detailing the administrative process that should be followed to "opt out" of the Scheme.

**Trade Unions**
We will work with the relevant Trade Unions to ensure the Scheme is understood by all interested parties. Training days for branch officers will be provided upon request, and efforts will be made to ensure that all pension related issues are communicated effectively with the Trade Unions.

**Pensions Roadshows**
As well as being a valuable aid for pensioners and current scheme members, roadshows will be used to target specific non-members with support being enlisted from the DWP and in-house AVC providers. This will ensure members receive the information required to make an informed choice with regards to their pension provision.

**Corporate Induction Courses**
Officers of the Council will attend corporate induction events in order to present to prospective Scheme members the benefits of joining the LGPS. A "one-on-one" surgery will also be offered to take account of individual queries that may be raised at such meetings.

## SCHEME EMPLOYERS

**Regular Updates**
These are issued periodically to all employers. This medium is also used to communicate any issues that are currently under debate. Changes to the Regulations which impact upon the employer's function or their employees are also covered.

**Employers' Guide**
An Employers Guide is issued to assist the employers in discharging their pension's administration responsibilities. Officers are also available for advice.

This is supplemented by the allocation of a Senior Pensions Officer to non-Havering employers who is available by telephone or personal visit to assist whenever necessary.

**Internet**
A microsite for employers will be established. All manuals and Scheme literature will be available on this site.

**Site Meetings**
Meetings with non-Havering Employers take place at their premises, as required. Specifically this has been used as a mechanism for communicating major strategic issues, significant legislation changes and triennial valuation matters.

## PENSIONS FUND AND ADMINISTRATION STAFF

**Service Management Teams**
The Fund is managed by Financial Services and administered by Internal Shared Services whose Senior Officers report to the relevant Heads of Service.

**Team Meetings**
Office and/or Team Meetings are held on a regular basis.

**Group Management Team Meetings – Finance and Commerce**
The Heads of Service are members of the Group's Management Team and attend the regular meetings convened by the Group Director. The Heads of Service are able to bring any matters of concern/importance to the attention of the Group Director through this mechanism.

Any necessary information arising from the Group's Management Team Meeting is disseminated within the Services, via Management Team and Team Briefings. Due to the nature of the investment work and delegation the Pensions Accountant meets with the Group Director, Finance and Commerce as required.

**Intranet**
Service intranets give all staff access and contain such information as procedure manuals, core briefings, LGPC circulars etc. This is an effective mechanism for ensuring that information is available to all staff at their work location in a timely manner.

**Induction**
All new members of staff undergo an induction procedure and an induction/personnel manual is available to all staff.

The Council has introduced a performance appraisal scheme for staff which includes a process for discussing and reviewing personal development. This is supplemented by regular one to one meetings with all staff.

**Internet**
Appropriate staff have been enabled to use the corporate network in order to access the internet.

**E-mails**
All staff have been given access to the e-mail facility.

**Pensions Manager**
The Pensions Manager maintains an open-door policy and, within reason, is available to all staff on request.

**Pension Fund Accountant**
On a similar basis responds to staff and other enquiries.

## INVESTMENT FUND MANAGERS

Day to day contact between the pension fund accountant and the fund managers is maintained. Each fund manager is required at the end of each quarter to present their performance alternately to the Pensions Committee or to officers including the Group Director Finance and Commerce.

## OTHER BODIES

**Trade Unions**

Trade Unions in the London Borough of Havering are valuable ambassadors for the Pension Scheme. They ensure that details of the Local Government Pensions Scheme's availability are brought to their members' attention and assist in negotiations under TUPE transfers in order to ensure, whenever possible, continued access to the Local Government Pension Scheme.

**Seminars**
Fund Officers regularly participate at seminars and conferences.

**Data Protection**
To protect any personal information held on computer, London Borough of Havering is registered under the Data Protection Act 1998. This allows members to check that their details held are accurate. The Fund may, if it chooses, pass certain details to a third party, if the third party is carrying out an administrative function of the Fund, for example, the Fund's AVC provider. Members who wish to apply to access their data on Data Protection Act grounds should contact the London Borough of Havering's Council's Data Protection Officer on 01708-432130.

This authority is under a duty to protect the public funds it administers, and to this end may use information for the prevention and detection of fraud. It may also share this information with other bodies administering public funds solely for these purposes.

**Further Information**

**If you need more information about the Scheme you should contact the Pensions Administration Service at the following address:**

**Write to us at:**
**Central Library, 2nd Floor,**
**Park End Road**
**Romford**
**RM1 3AR**

**Tel: 01708 432192/432981**
**Fax: 01708 432078**
**E-Mail: pensions@havering.gov.uk**
**Council's website:**
**www.havering.gov.uk**

**There is also a number which you can dial direct and get through to the person dealing with individual cases. You will find this on any letter issued by the Fund.**

Havering
LONDON BOROUGH

# FUNDING STRATEGY STATEMENT

## MARCH 2011

# FUNDING STRATEGY STATEMENT

## LONDON BOROUGH OF HAVERING PENSION FUND

### Overview

This Statement has been prepared in accordance with Regulation 76A of the Local Government Pension Scheme Regulations 1997. The Statement describes London Borough of Havering's strategy, in its capacity as Administering Authority (the Administering Authority), for the funding of the London Borough of Havering Pension Fund (the Fund).

As required by Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (the Administration Regulations), this Statement is kept under review and revised as appropriate. In reviewing and making revisions to the Statement, the Administering Authority has regard to guidance published by CIPFA in March 2004.

### Consultation

In accordance with Regulation 35(3) (b) of the Administration Regulations, all employers participating within the London Borough of Havering Pension Fund have been consulted on the contents of this Statement and their views have been taken into account in formulating the Statement. However, the Statement describes a single strategy for the Fund as a whole.

In addition, the Administering Authority has had regard to the Fund's Statement of Investment Principles published under Regulation 9A of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (the Investment Regulations).

The Fund Actuary, Hymans Robertson LLP, has also been consulted on the contents of this Statement.

### Policy Purpose

The three main purposes of this Funding Strategy Statement are:

- To establish a clear and transparent strategy, specific to the Fund, which will identify how employer's pension liabilities are best met going forward.
- To support the regulatory requirement in relation to the desirability of maintaining as nearly constant employer contribution rates as possible.
- To take a prudent longer-term view of funding the Fund's liabilities.

**The Aims of the Fund**

The aims of the Fund are:

1. To ensure that sufficient resources are available to meet all liabilities as they fall due.

   The Administering Authority recognises the need to ensure that the Fund has, at all times, sufficient liquid assets to be able to pay pensions, transfer values, costs, charges and other expenses. It is the Administering Authority's policy that such expenditure is met, in the first instance, from incoming employer and employee contributions to avoid the expense of disinvesting assets. The Administering Authority monitors the position on a monthly basis to ensure that all cash requirements can be met.

2. To enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the Scheduled bodies, Admitted bodies and to the taxpayers.

   The Administering Authority recognises that the requirement to keep employer contribution rates as nearly constant as possible can run counter to the following requirements:

   - the regulatory requirement to secure solvency,
   - the requirement that the costs should be reasonable, and
   - maximising income from investments within reasonable cost parameters (see 4 below)

   Producing low volatility in employer contribution rates requires material investment in assets which 'match' the employer's liabilities. In this context, 'match' means assets which behave in a similar manner to the liabilities as economic conditions alter. For the liabilities represented by benefits payable by the Local Government Pension Scheme, such assets would tend to comprise gilt edged investments.

   Other classes of assets, such as other equities and property, are perceived to offer higher long term rates of return, on average, and consistent with the requirement to maximise the returns from investments the Administering Authority invests a substantial proportion of the Fund in such assets. However, these assets are more risky in nature, and that risk can manifest itself in volatile returns over short term periods.

   This short term volatility in investment returns can produce a consequent volatility in the measured funding position of the Fund at successive valuations, with knock on effects on employer contribution rates. The impact on employer rates can be mitigated by use of stabilisation mechanisms.

   The Administering Authority recognises that there is a balance to be struck between the investment policy adopted, the stabilisation mechanisms used at valuations, and the resultant smoothness of employer contribution rates from one valuation period to the next.

   The Administering Authority also recognises that the position is potentially more volatile for Admission Bodies with short term contracts where utilisation of stabilisation mechanisms is less appropriate.

3. To manage employers' liabilities effectively.

   The Administering Authority seeks to ensure that all employers' liabilities are managed effectively. In a funding context, this is achieved by seeking regular actuarial advice, ensuring that employers and Pensions Committee Members are properly informed, and through regular monitoring of the funding position.

4. To maximise the income from investments within reasonable risk parameters.

   The Administering Authority recognises the desirability of maximising investment income within reasonable risk parameters. Investment returns higher than those available on government stocks are sought through investment in other asset classes such as stocks and property. The Administering Authority ensures that risk parameters are reasonable by:

   - restricting investment to the levels permitted by the Investment Regulations.
   - restricting investment to asset classes generally recognised as appropriate for UK pension funds.
   - analysing the potential risk represented by those asset classes in collaboration with the Fund's Actuary, Investment Advisors and Fund Managers.

## Purpose of the Fund

The purpose of the Fund is:

1. To pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses.
2. To receive monies in respect of contributions, transfer values and investment income.

## Responsibilities of the key parties

The three parties whose responsibilities to the Fund are of particular relevance are the Administering Authority, the Individual Employers and the Fund Actuary.

Their key responsibilities are as follows:

### Administering Authority

The Administering Authority's key responsibilities are:

1. Collecting employer and employee contributions and, as far as the Administering Authority is able to, ensure these contributions are paid by the due date.

   Individual employers must pay contributions in accordance with Regulations 39, 40, 41, 42 and 43 of the Administration Regulations. The Administering Authority will ensure that all employers are aware of these requirements especially the requirement of the Pensions Act 1995 that members' contributions are paid by the 19th of the month following the month that it is paid by the member. The contributions to the Pension Fund are monitored and processed by the Pension Administration team. If contributions are received more than a month after payment is due, interest will be charged at the rate of 1% above the bank base rate.

The Administering Authority will ensure that action is taken to recover assets from Admitted Bodies whose Admission Agreement has ceased by:

- Complying with Regulation 38(2) of the Administration Regulations by requesting that the Fund Actuary calculates any deficit at the date of the cessation of the Admission Agreement
- notifying the Admitted Body that it must meet any deficit at the cessation of the Agreement.

2. Invest surplus monies in accordance with the regulations.

   The Administering Authority will comply with Regulation 9 of the Investment Regulations.

3. Ensure that cash is available to meet liabilities as and when they fall due.

   The Administering Authority recognises this duty and discharges it in the manner set out in the Aims of the Fund above.

4. Manage the valuation process in consultation with the Fund's Actuary

   The Administering Authority ensures it communicates effectively with the Fund Actuary to:

   - agree timescales for the provision of information and provision of valuation results
   - ensure provision of data of suitable accuracy
   - ensure that the Fund Actuary is clear about the Funding Strategy
   - ensure that participating employers receive appropriate communication throughout the process
   - ensure that reports are made available as required by Guidance and Regulation

5. Prepare and maintain a Statement of Investment Principles and a Funding Strategy Statement after due consultation with interested parties.

   The Administering Authority will ensure that both documents are prepared and maintained in the required manner.

6. Monitor all aspects of the Fund's performance and funding and amend these two documents if required.

   The Administering Authority monitors the funding position of the Fund on a quarterly basis, and the investment performance of the Fund on a monthly basis. The Statement of Investment Principles and Funding Strategy Statement will be reviewed annually, unless circumstances dictate earlier amendment.

**Individual Employers** will:

1. Deduct contributions from employees' pay.
2. Pay all contributions, including their employer contribution as determined by the actuary, promptly by the due date.
3. Exercise discretions within the regulatory framework.

4. Pay for added years or pensions in accordance with agreed arrangements.
5. Notify the administering authority promptly of all changes to membership, or other changes which affect future funding

**The Fund Actuary** will:

1. Prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the administering authority and having regard to the Funding Strategy Statement.

   Valuations will also be prepared in accordance with generally accepted actuarial methods and reported on in accordance with Guidance Note 9 issued by the Board for Actuarial Standards, to the extent that the Guidance Note is relevant to the LGPS.

2. Prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

   Such advice will take account of the funding position and funding strategy of the Fund, along with other relevant matters.

**Solvency**

The Administering Authority will prudentially seek to secure the solvency of the Fund. For this purpose the Administering Authority defines solvency as being achieved when the value of the Fund's assets is greater than or equal to the value of the Fund's liabilities when measured using 'ongoing' actuarial methods and assumptions (ongoing funding basis).

'Ongoing' actuarial methods and assumptions are taken to be measurement by use of the projected unit method of valuation, using assumptions generally recognised as suitable for an open, ongoing UK pension fund with a sponsoring employer of sound covenant.

The financial assumptions used to assess the funding level will have regard to the yields available on long term fixed interest and index linked gilt edged investments. The Administering Authority has also agreed with the Fund Actuary that the assumptions will make partial allowance for the higher long term returns that are expected on the assets actually held by the Fund, and understands the risks of such an approach if those additional returns fail to materialise.

The ongoing funding basis has traditionally been used for each triennial valuation for all employers in the fund.

Where an admission agreement for an admission body that is not a Transferee Admission Body and has no guarantor is likely to terminate within the next 5 to 10 years or lose its last active member within that timeframe, the Fund reserves the right to set contribution rates by reference to liabilities valued on a gilts basis (i.e. using a discount rate that has no allowance for potential investment outperformance relative to gilts). The target in setting contributions for any employer in these circumstances is to achieve full funding on a gilts basis by the time the agreement terminates or the last active member leaves in order to protect other employers in the fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required when a cessation valuation is carried out.

The Fund also reserves the right to adopt the above approach in respect of those admission bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease.

The Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the Administering Authority.

**Funding Strategy**

Where a valuation reveals that the Fund is in surplus or deficiency against this solvency measure, employer contribution rates will be adjusted to target restoration of the solvent position over a period of years (the recovery period). The recovery period applicable for each participating employer is set by the Administering Authority in consultation with the Fund Actuary and the employer, with a view to balancing the various funding requirements against the risks involved due to such issues as the financial strength of the employer and the nature of its participation in the Fund.

The Administering Authority recognises that a large proportion of the Fund's liabilities are expected to arise as benefit payments over long periods of time. For employers of sound covenant, the Administering Authority is prepared to agree to recovery periods which are longer than the average future working lifetime of the membership of that employer. The Administering Authority recognises that such an approach is consistent with the aim of keeping employer contribution rates as nearly constant as possible. However, the Administering Authority also recognises the risk in relying on long recovery periods and has agreed with the Fund Actuary a limit of 20 years. The Administering Authority's policy is to adopt recovery periods for each employer which are as short as possible within this framework.

For employers whose participation in the Fund is for a fixed period it is unlikely that the Administering Authority and Fund Actuary would agree to a recovery period longer than the remaining term of participation, other than in exceptional circumstances, when it may permit recovery over a period not exceeding 10 years subject to security, e.g. an indemnity or bond or other contingent asset of amount and form acceptable to the administering Authority, being maintained.

Consistent with the requirement to keep employer contribution rates as nearly constant as possible, the Administering Authority permits some employers to be treated as a group for the purposes of setting contribution rates. In particular, contribution rates could be very volatile for smaller employers due to the increased likelihood that demographic movements would have a material effect. The Administering Authority recognises that grouping can give rise to cross subsidies from one employer to another over time. The Administering Authority's policy is to consider the position carefully at each valuation and to notify each employer that is grouped that this is the case, and which other employers it is grouped with. If the employer objects to this grouping, it will be offered its own contribution rate. For employers with more than 50 contributing members, the Administering Authority would look for evidence of homogeneity between employers before considering grouping. For employers whose participation is for a fixed period grouping is unlikely to be permitted.

Again, consistent with the requirement to keep employer contribution rates as nearly constant as possible, the Administering Authority will consider, at each valuation, whether new contribution rates should be payable immediately, or should be reached by a series of steps over future years. The Administering Authority will discuss with the Fund Actuary the risks inherent in such an approach, and will examine the financial impact and risks associated with each employer. The Administering Authority's policy is that in the normal course of events no more than three equal annual steps will be permitted. Further steps may be permitted in extreme cases, but the total is very unlikely to exceed six steps.

## Identification of risks and counter measures

The Administering Authority's overall policy on risk is to identify all risks to the Fund and to consider the position both in aggregate and at an individual risk level. The Administering Authority will monitor the risks to the Fund, and will take appropriate action to limit the impact of these both before, and after, they emerge wherever possible. The main risks to the Fund are:

### Demographic

The main risks include changing retirement patterns, take up of the commutation option and longevity. The Administering Authority will ensure that the Fund Actuary investigates these matters at each valuation or, if appropriate, more frequently, and reports on developments. The Administering Authority will agree with the Fund Actuary any changes which are necessary to the assumptions underlying the measure of solvency to allow for observed or anticipated changes.

If significant demographic changes become apparent between valuations, the Administering Authority will notify all participating employers of the anticipated impact on costs that will emerge at the next valuation and will review the bonds that are in place for Transferee Admitted Bodies.

### Regulatory

The risks relate to changes to regulations, National pension requirements or Inland Revenue rules. The Administering Authority will keep abreast of all proposed changes and, where possible, express their opinion during consultation periods after careful consideration. The Administering Authority's policy will be to ask the Fund Actuary to assess the impact on costs of any changes and, where these are likely to be significant, the Administering Authority will notify Employers of this likely impact and the timing of any change.

### Governance

This covers the risk of unexpected structural changes in the Fund membership (for example the closure of an employer to new entrants or the large scale withdrawal or retirement of groups of staff), and the related risk of the Administering Authority not being made aware of such changes in a timely manner.

The Administering Authority's policy is to require regular communication between itself and employers, and to ensure regular reviews of such items as bond arrangements, financial standing of non-tax raising employers and funding levels.

### Statistical/Financial

This covers such items such as the performances of markets, Fund investment managers, asset reallocation in volatile markets, pay and /or price inflation varying from anticipated levels or the effect of possible increases in employer contribution rate on service delivery and on Fund employers. The Administering Authority's policy will be to regularly assess such aspects to ensure that all assumptions used are still justified.

Solvency measure

The Administering Authority recognises that allowing for future investment returns in excess of those available on government bonds introduces an element of risk, in that those additional returns may not materialise. The Administering Authority's policy will be to monitor the underlying position assuming no such excess returns are achieved to ensure that the funding target remains realistic relative to the low risk position.

Stabilisation

There can be occasions when, despite the deployment of contribution stabilising mechanisms such as pooling, stepping and the extension of deficit recovery periods, the theoretical employer contribution rate is not affordable or achievable. This can occur in times of tight fiscal control or where budgets have been set in advance of new employer contribution rates being available.

In view of this possibility, the Administering Authority has commissioned the Fund Actuary to carry out extensive modelling to explore the long term effect on the Fund of capping future contribution increases. The results of this modelling indicate that it is justifiable to limit employer contribution rate changes, subject to the following conditions being met:

- the Administering Authority is satisfied that the status of the employer merits adoption of a stabilised approach; and
- there are no material events between 1 April 10 and 1 April 2011 which render the stabilisation unjustifiable.

In the interests of stability and affordability of employer contributions, the Administering Authority, on the advice of the Fund Actuary, believes that the results of the modelling demonstrate that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" and are therefore paying less than their theoretical contribution rate should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

The Fund currently has a strong net cash inflow and can therefore take a medium to long term view on determining employer contribution rates to meet future liabilities through operating a fund with an investment strategy that reflects this long term view. It allows short term investment markets volatility to be managed so as not to cause volatility in employer contribution rates.

The LGPS regulations require the longer term funding objectives to be to achieve and maintain assets to meet the projected accrued liabilities. The role of the Fund Actuary in performing the necessary calculations and determining the key assumptions used, is an important feature in determining the funding requirements. The approach to the actuarial valuation and key assumptions used at each triennial valuation form part of the consultation undertaken with the FSS.

Recovery period

The Administering Authority recognises that permitting surpluses or deficiencies to be eliminated over a recovery period rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements. The Administering Authority's policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the permitted length of recovery period to no longer than 20 years.

Stepping

The Administering Authority recognises that permitting contribution rate changes to be introduced by annual steps rather than immediately introduces a risk that action to restore solvency is insufficient in the early years of the process. The Administering Authority's policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the number of permitted steps to three annual steps. In exceptional circumstances further steps may be permitted but the total is highly unlikely to exceed six annual steps.

**Admission Bodies Ceasing**

Admission agreements for Transferee Admission Body contractors are assumed to expire at the end of the contract.

Admission agreements for other employers are generally assumed to be open-ended and to continue until all the benefits have been paid in full. Contributions, expressed as capital payments, can continue to be levied after all the employees have retired. These admission agreements can however be terminated at any point subject to the terms of the agreement.

The Fund, however, considers any of the following as triggers for the termination of an admission agreement:

- Last active member ceasing participation in the LGPS;
- The insolvency, winding up or liquidation of the admission body;
- Any breach by the Admission Body of any of its obligations under the agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the admission body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the admission body to renew or adjust the level of the bond or indemnity or to confirm appropriate alternative guarantor as required by the Fund.

In addition either party can voluntarily terminate the admission agreement by giving the appropriate period of notice as set out in the admission agreement to the other party (or parties in the case of a Transferee Admission Body).

If an Admission Body's admission agreement is terminated, the Administering Authority instructs the Fund actuary to carry out a special valuation to determine whether there is any deficit.

The assumptions adopted to value the departing employer's liabilities for this valuation will depend upon the circumstances. For example:

a) For Transferee Admission Bodies, the assumptions would be those used for an ongoing valuation to be consistent with the assumptions used to calculate the initial transfer of assets to accompany the active member liabilities transferred.

b) For admission bodies that are not Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or which triggers a cessation event, the Administering Authority must look to protect the interests of other ongoing employers and will require the actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in future. Where there is a guarantor, the cessation valuation will normally be calculated using an ongoing valuation basis appropriate to the investment strategy. Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a “gilts cessation basis” with no allowance for potential future investment outperformance and with an allowance for further future improvements in life expectancy. This approach results in a higher value being placed on the liabilities than would be the case under a valuation on the ongoing funding basis and could give rise to significant payments being required.

c) For Admission Bodies with guarantors, it is possible that any deficit could be transferred to the guarantor in which case it may be possible to simply transfer the former Admission Bodies members and assets to the guarantor, without needing to crystallise any deficit.

Under (a) and (b), any shortfall would be levied on the departing Admission Body as a capital payment.

In the event that the Fund is not able to recover the required payment in full directly from the Admission Body or from any bond or indemnity or guarantor, then:

a) In the case of Transferee Admission Bodies the awarding authority will be liable. At its absolute discretion, the Administering Authority may agree to recover any outstanding amounts via an increase in the awarding authority’s contribution rate over an agreed period.

b) In the case of admission bodies that are not Transferee Admission Bodies and have no guarantor, the unpaid amounts fall to be shared amongst all of the employers in the Fund. This will normally be reflected in contribution rates set at the formal valuation following the cessation date

As an alternative to (b) above where the ceasing Admission Body is continuing in business, the Fund, at its absolute discretion, reserves the right to enter into an agreement with the ceasing Admission Body to accept an appropriate alternative security to be held against any funding deficit and to carry out the cessation valuation on an ongoing valuation basis. This approach would be monitored as part of each triennial valuation and the Fund reserves the right to revert to a “gilts cessation basis” and seek immediate payment of any funding shortfall identified.

**Early Retirement Costs**

Non Ill Health retirements

The Actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health. Employers are required to pay additional contributions wherever an employee retires before attaining the age at which the valuation assumes that benefits are payable.

It is assumed that members' benefits on age retirement are payable from the earliest age that the employee could retire without incurring a reduction to any part of their benefit and without requiring their employer's consent to retire. Members receiving their pension unreduced before this age other than on ill-health grounds are deemed to have retired "early".

The additional costs of premature retirement are calculated by reference to these ages.

Employers must make these additional contributions as a one off payment to the fund immediately on awarding the early retirement. The exception to this rule are statutory bodies with tax raising powers, where, depending on the circumstances, the Administering Authority may at its absolute discretion agree to spread the payment over a period not exceeding 3 years. In any event the spread period cannot exceed the period to the member's normal retirement date if this is shorter than 3 years.

Ill health monitoring

The Fund will monitor each employer's, or pool of employers, ill health experience on an ongoing basis. If the cumulative cost of ill health retirements in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis as apply for non ill-health cases.

**New Admitted Bodies**

The Fund requires the following from any potential Admission Bodies wishing to join the Fund.
Transferee Admission Bodies will be required to have a guarantee from the transferring scheduled body and also provide a bond if requested by the awarding authority and/or the Administering Authority. The bond is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the employer's contract
- allowance for the risk of asset underperformance
- allowance for the risk of a fall in gilt yields

The Fund may also require employers to include their current deficit within the bond amount. The bond amount will be reassessed by the Fund actuary on an annual basis.

The Administering Authority will only consider requests from Community Admission Bodies to join the Fund if they are sponsored by a scheduled body with tax raising powers, guaranteeing their liabilities, and also provide a bond if requested.

These measures reduce the risk to the Fund of potentially having to pick up any shortfall in respect of Admission Bodies.

**Links to investment policy set out in the Statement of Investment Principles**

The Authority has produced this Funding Strategy Statement having taken an overall view of the level of risk inherent in the investment policy set out in the Statement of Investment Principles and the funding policy set out in this Statement.

The Administering Authority will continue to review both documents to ensure that the overall risk profile remains appropriate including, where appropriate, asset liability modelling or other analysis techniques.

**Future monitoring**

The Administering Authority plans to review this statement annually, and as part of the triennial valuation process unless circumstances arise which require earlier action.

The Administering Authority will discuss with the actuary the impact on the funding position of any significant changes that have arisen to determine whether interim valuations or any other action needs to be taken.

Havering
LONDON BOROUGH

# STATEMENT OF INVESTMENT PRINCIPLES

## NOVEMBER 11

# STATEMENT OF INVESTMENT PRINCIPLES

## London Borough of Havering Pension Fund (‘the Fund’)

### Background

### Legislation

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1999 as amended require Local Authority Pension Funds to prepare a Statement of Investment Principles (SIP) and to review it at least every three years and without delay after any significant change in investment policy. They are also required to set out a Statement of Compliance with the six Principles of Investment Management contained in the CIPFA document ''Principles for Investment Decision Making and disclosure” published in December 2009.

In preparing this Statement, the Pensions Committee has considered advice from the Investment Practice of Hymans Robertson LLP.

In relation to the Myners Code of Conduct for Investment Decision Making, the extent of the Trustees compliance with this voluntary code is summarised in the Appendix to this statement.

### Purpose and Scope of Scheme

The London Borough of Havering is the Administering Authority for the London Borough of Havering Pension Fund. The Fund is part of the Local Government Pension Scheme (LGPS) and provides death and retirement benefits for all eligible employees and their dependants. It is a final salary defined benefit Pension Scheme, which means that benefits are payable based on the employees’ final salary. All active members are required to make pension contributions which are based on a fixed percentage of their pensionable pay as defined in the LGPS regulations. Following the changes to the benefit structure of LGPS Schemes from 1 April 2008, active members previously paying contributions of 6% will pay banded rates between 5.5% and 7.5% depending on their level of full-time equivalent pay. Manual workers in employment before 1st April 1998 who previously had a protected 5% rate will be subject to transitional rates.

The London Borough of Havering is responsible for the balance of the costs necessary to finance the benefits payable from the Fund by applying employer contribution rates, determined from time to time (but at least triennially) by the Fund’s actuary.

The London Borough of Havering has a direct interest in the investment returns achieved on the Fund’s assets, but the benefits paid to pensioners are not directly affected by investment performance.

## Pensions Committee

A dedicated group of Councillors (the “Pensions Committee”) has been set up to deal with the majority of the Fund’s investment issues. Major investment decisions will be referred for consideration to the Pensions Committee. The Pensions Committee is made up of elected representatives of The Council who each have voting rights and Trade Union and Employer representatives who have observer status. The Pensions Committee reports to Full Council and has full delegated authority to make investment decisions. The Pensions Committee decides on the investment policies most suitable to meet the liabilities of the Havering Pension Fund and has ultimate responsibility for the governance of the Fund including Investment Strategy.
In particular, the Pensions Committee has duties that include:

- Monitoring the investment performance of the Fund on a quarterly basis;
- Determining overall strategy;
- Ensuring compliance with legislative requirements;
- Receiving the triennial valuation prepared by the Funds actuary with recommended contribution levels;
- Determining asset allocation and benchmarking;
- Appointment of Investment Managers.

The Pensions Committee is set up under the Local Government Act so that, where necessary it can exercise decision-making powers. The Pensions Committee meets at least four times per year to hear reports from its officers, investment managers, actuary, and investment adviser and performance measurement provider. Additional meetings are held as required in particular to ensure the appropriate Councillor training.

The Pensions Committee also receives and considers advice from executive officers of the Council and, as necessary, from its appointed external investment adviser (including specific investment advice), the actuary to the Fund and its investment managers.

The Regulations state that the Administering Authority must, when formulating its investment policy, have regard to the advisability of investing fund money in a wide range of investments and to the suitability of particular investments and types of investments.

## Fund Objective

The purpose of the Fund is:

1. To pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses;
2. To receive monies in respect of contributions, transfer values and investment income.

The overriding aims of the Fund as set out in the Funding Strategy Statement are as follows:

- To ensure that sufficient resources are available to meet all liabilities as they fall due.

- To enable employer contribution rates to be kept as nearly constant as possible and at a reasonable cost to the Scheduled bodies, Admitted bodies and to the taxpayers.

- To manage employers' liabilities effectively.

- To maximise the income from investments within reasonable risk parameters.

For active members, benefits are based on service completed but take account of future salary increases. The value of liabilities is calculated consistently on the ongoing basis set out in the formal report of the Fund's Actuary on the actuarial valuation carried out as at 31 March 2010. The fund's performance is monitored quarterly by the Pensions Committee and the funding position is formally reviewed at each triennial actuarial valuation or unless circumstances arise which require earlier action.

**Investment Objective**

Following a review of the Investment Strategy in 2008, the Pensions Committee have translated their objectives into a suitable strategic asset allocation benchmark for the Fund. All day to day investment decisions have been delegated to a number of authorised investment managers. The strategic benchmark is reflected in the choice and mix of funds in which the Fund invests. The Fund's benchmark is consistent with the Pensions Committee's collective view on the appropriate balance between seeking an enhanced long-term return on investments and accepting greater short-term volatility and risk.

The Committee conducted a detailed study of the Funds' investment strategy during 2008 involving an asset/liability modelling exercise ('Phase 1') and a structure modelling exercise ('Phase 2') for fine tuning of the risk return profile of the selected strategy. In selecting the investment strategy the Pensions Committee have been advised by their Investment Adviser, Hymans Robertson, and have paid due consideration to:

- Prudence – the impact on the margins included in the actuarial funding basis and the need for the actuary to adopt a prudent approach.

- Affordability – the impact on the level of Employer contributions in the longer term.

- Stability – the extent to which Employer contributions vary between actuarial valuations and the need to minimise such variations.

- Stewardship – the impact of the investment strategy on reaching target funding levels and the associated risks involved.

## Asset Allocation

To achieve their objectives the Pensions Committee has agreed upon the following benchmark allocation:

| Asset Class | Active % | Passive % | Target % |
|---|---|---|---|
| Property | 10 | | 10 |
| UK Equities | 17 | 3 | 20 |
| Global Equities | 17 | 23 | 40 |
| Fixed Interest Gilts | } | | } |
| Index Linked Gilts | } 20 | | } 20 |
| Corporate Bonds | } | | } |
| Absolute Return | 10 | | 10 |
| **Total** | **74** | **26** | **100** |

The Pensions Committee target allocation is broadly inline with the investment strategy review carried out in 2008 but now takes into account the change from active to passive management and the increase in the allocation to Absolute Return.

The underlying target return of this strategy is the return on long dated Gilts plus 2.6% p.a. This level of performance over Gilts allows for the expected returns from the combination of asset classes net of fees, and makes a conservative allowance for active manager skill. It is consistent with the average long term return expectations underlying the modelling work supporting the strategy review.

The expected returns as used in the modelling work during the strategy review for individual asset classes were:

| | **Expected Rates of Return % p.a.** |
|---|---|
| UK Equity (UK) | 7.8% |
| Equity (Overseas) | 7.5% |
| Fixed Interest Gilts | 4.6% |
| Index-Linked Gilts | 4.4% |
| Corporates | 5.4% |
| Cash | 4.8% |
| Commercial Property | 5.7% |
| Alternative Assets | 7.0% |

## Choosing Investments

The Pensions Committee have appointed investment managers who are authorised under the Financial Services and Markets Act 2000 to undertake investment business. The Pensions Committee have given the investment managers specific directions as to the asset allocation but investment choice has been delegated to these managers subject to their respective benchmarks and asset guidelines.

The fund has undergone some changes to its structure to align to the new benchmark allocation. Some of those changes have yet to be fully implemented but it is anticipated that this will be completed during 2011/12. The allocation of assets to each manager that the Committee aims to have in place at the end of the restructuring process is as follows:

| **Mandate (% of fund awarded)** | **Manager** | **Tactical Benchmark** | **Target** |
|---|---|---|---|
| Property (10%) | UBS | IPD All balanced (property) Fund's median | To outperform the benchmark |
| UK Equities (Active 17%) | Standard Life | FTSE All Share | +2% net of fees |
| Global Equities (Active 17%) | Yet to be appointed | MSCI All Countries Index | +2.5% net of fees |
| UK /Global Equities (Passive 26%) | State Street Global Assets | Composite | To track the benchmark (gross of fees) |
| Investment grade bonds (20%) | Royal London Asset Management | Composite | +0.75% net of fees |
| Absolute Return (10%) | Ruffer LLP | UK bank deposit rate | To outperform the benchmark (net of fees) |

From time-to-time, particularly when implementing the changes to the strategic asset allocation, when markets are volatile or when dealing costs are high, the Committee may deviate from the long-term strategy on a temporary basis. The Committee recognises that, while it is impossible to predict short-term market movements, it should use its reasonable judgement in such circumstances. For example, this could be applied with the aim of avoiding excessive dealing costs or reducing the impact of adverse market movements by spreading changes over a number of dealing dates. In doing so, the Committee also recognises that the Fund is intended to meet the liabilities as they emerge over the longer term and hence the normal default position is to be fully invested broadly in line with the strategic benchmark.

**Fees**

UBS is remunerated by a fixed management fee and the expenses inherent in the management of the pooled property fund. All other fund managers are remunerated by an ad valorem scaled fee based on the market value at quarter end of the assets under management.

**Investment Responsibilities**

**Responsibilities of the Pensions Committee**

- Overall investment strategy and strategic asset allocation with regard to the suitability and diversification of investments;
- Monitoring compliance with this Statement of Investment Principles and reviewing its contents;
- Appointing investment managers, an independent custodian, the Fund actuary, external independent advisers and investment adviser;
- Reviewing investment manager performance against established benchmarks on a regular basis;
- Reviewing the investment managers' expertise and the quality and sustainability of their investment process, procedures, risk management, internal controls and key personnel;
- Reviewing policy on social environmental and ethical matters and on the exercise of rights, including voting rights;
- Reviewing the investments over which they retain control and to obtaining written advice about them regularly from the investment adviser. The Pensions Committee will also obtain written advice from the investment adviser when deciding whether or not to make any new investments or to transfer or redistribute assets within the mandates, whether due to market movements or other factors;
- Rebalancing the assets with reference to trigger points. When the Fund allocation deviates by 5% or more from the strategic allocation, the assets will be rebalanced back to within 2.5% of the strategic asset allocation. In exceptional circumstances, when markets are volatile or when dealing costs are unusually high, the Committee may decide to suspend rebalancing temporarily. The priority order for funding rebalancing is to first use surplus cash, followed by dividend and or interest income and lastly using sales of overweighted assets. The Pensions Committee will seek the written advice of the investment adviser with regard to rebalancing and detailed distribution of cash or sale proceeds.

**The Pensions Committee is advised by The Council's Executive Officers, who are responsible for:**

- Ensuring compliance with statutory requirements and the investment principles set out in this document and reporting any breaches to the Pensions Committee;
- Management of surplus cash, which is lent through the money markets in accordance with the Council's Treasury Management Code of Practice. Performance is measured against the 7-day London Interbank Bid (LIBID) rate;

- Investment accounting and preparing the annual report and accounts of the fund;
- Ensuring proper resources are available for the Council's responsibilities to be met.

**The Investment Managers are responsible for:**

- The investment of pension fund assets in compliance with the legislation and the detailed investment management agreements;
- Tactical asset allocation around the managers' strategic benchmark as set by the Pensions Committee;
- Stock selection within asset classes;
- Voting shares in accordance with agreed policy;
- Preparation of quarterly reporting including a review of past investment performance, transaction costs and future investment strategy in the short and long term;
- Attending meetings of the Pensions Committee and officers of the council as required.

**The Independent Custodian is responsible for:**

- Provision of monthly accounting data summarising details of all investment transactions during the period;
- Providing investment transaction details in a timely manner to the independent performance measurers;
- Safe custody and settlement of all investment transactions, collection of income, withholding tax reclaims and the administration of corporate actions;
- The separation of investment management from custody is paramount for the security of the assets of the Fund.

**The Actuary is responsible for:**

- Undertaking a triennial valuation of the Fund's assets and liabilities and interim valuations as required, including those to enable compliance with the reporting standard FRS17/IAS19;
- Advising on the rate of employer contributions required to maintain appropriate funding levels;
- Providing advice on the admission and withdrawal of employers to the scheme, including external employers following externalisation of services;
- Preparing the Funding Strategy Statement.

**The Independent Measurers are responsible for:**

- Providing the Pensions Committee and the Council's executive officers with comparative information on the Fund's performance relative to other funds and the relative performance of different types of investments.

**The Investment Adviser is responsible for:**

- Advising on the investment strategy of the fund and its implementation;
- Advising on the selection of investment managers, and the custodian;
- Providing investment information, investment advice[1] and continuing education to the Pensions Committee and the executive officers;
- Independent monitoring of the investment managers and their activities.

The Investment Adviser is remunerated by way of time cost fees and fixed fees within an agreed annual budget.

**The Auditor**

- The Fund is audited annually by the auditors appointed by the Audit Commission. The financial year end is 31st March.

**The Historic Position of Fund**

The Fund is unlikely to be fully funded for several years. This has arisen for a number of reasons including:

- The reduction in the funding level to 75% of liabilities as a result of government regulations prior to the introduction of the community charge:
- The cost of the redundancy programme in the mid 1990's.
  *(Note that since 1998 redundancies and early retirements are a charge on departmental cost centres and external employers rather than the Pension Fund).*
- Overall investment returns since 1998 falling short of those anticipated in the funding strategy adopted from time to time.

- Longevity improving at a faster rate than anticipated.

At the last triennial valuation (at 31st March 2010) the funding ratio was 61%.

The Administering Authority is obliged to prepare a Funding Strategy Statement (FSS), which is published on the Council's web site at www.havering.gov.uk (select Services - select Council and Democracy - select Pension Fund). This outlines the method by which the Fund aims to return to an acceptable level of funding. This is expected to be achieved by a combination of increased contributions to the Fund, and achieving good long-term investment returns following the implementation of the new investment strategy in 2008.

[1] The Investment Adviser is authorised by and registered with the Financial Services Authority for the provision of investment advice.

**Review**

- The investment strategy is reviewed by the Pensions Committee, every three years following the actuarial valuation results and informally on an annual basis.
- The current review is based on the Actuarial Valuation 2007, a subsequent valuation in 2010 and an Asset/Liability study and ongoing advice on asset allocation from the Fund's Investment Adviser in 2008.

**Reporting**

The investment performance of the individual managers is reported to the Pensions Committee and Officers quarterly. Reports are received from the fund's performance measurers and investment advisers, along with executive summaries from each investment manager including details of any voting undertaken in that quarter.

**Risk**

The Fund is exposed to a number of risks which pose a threat to the Fund meeting its objectives. The principal risks affecting the Fund are:

<u>Funding risks</u>**:**

- Financial mismatch – 1. The risk that Fund assets fail to grow in line with the developing cost of meeting Fund liabilities. 2. The risk that unexpected inflation increases the pension and benefit payments and the Fund assets do not grow fast enough to meet the increased cost.
- Changing demographics –The risk that longevity improves and other demographic factors change increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting Fund liabilities.

The Committee measures and manages financial mismatch in two ways. As indicated above, it has set a strategic asset allocation benchmark for the Fund. It assesses risk relative to that benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. In 2008, following recommendations from the 2007 Actuarial Valuation and a full review of investment strategy commissioned from the Fund's investment adviser, the Pension Committee agreed to revise the investment strategy. The underlying allocation to growth assets following the review is: 75% in a mixture of equities, property and alternative assets with the remaining 25% in lower volatility bonds. Although this is not in line with a liability-matched position, it is intended to grow the value of the assets at a managed level of risk with reduced long-term costs for the Council.

The Committee keeps under review mortality and other demographic assumptions which could influence the cost of the benefits. These assumptions are considered formally at the triennial valuation.

The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

**<u>Asset risks</u>**

- Concentration - The risk that significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates

The Committee manages asset risks as follows. It provides a practical constraint on Fund investments deviating greatly from the intended approach by setting itself diversification guidelines and by investing in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, constrains risk within the Committees' expected parameters. By investing across a range of assets, including quoted equities and bonds; the Committee has recognised the need for some access to liquidity in the short term. In appointing several investment managers, the Committee has considered the risk of underperformance by any single investment manager.

**<u>Other provider risk</u>**

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee takes professional advice and considers the appointment of specialist transition managers.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers and audit of the operations they conduct for the Fund.

**Investments**

The powers and duties of the Fund to invest monies are set out in the Local Government Pension Scheme (Management & Investment Funds) Regulations 1998. The Fund is required to invest any monies which are not required to pay pensions and other benefits and in so doing take account of the need for suitable diversified portfolio investments and the advice of persons properly qualified (including officers) on investment matters.

**Types of Investment**

In broad terms investments may be made in accordance with the investment regulations in equities, fixed interest and other bonds and property and in the UK and overseas markets. The regulations specify other investment instruments may be used e.g. financial futures, traded options, insurance contracts, stock lending, sub-underwriting contracts, although historically it has not been the practice of the Fund to participate in these. Any limitations on the use of these instruments will be included within the Investment management Agreements (IMA's) or equivalent pooled fund rules.

The investment regulations also specify certain limitations on investments.

The Pensions Committee has set out control ranges and restrictions for the Fund's investments. These control ranges and restrictions have been considered when setting the benchmarks for each Manager.

**Investment Management**

The Investment Manager's are each bound by an investment management agreement (IMA) that takes account of:

- The benchmark set, and the allocation of assets within this benchmark;
- Cash needs;
- Risk tolerances;
- The policies on Corporate Governance and Socially Responsible Investment, given later in this document.

The Investment Manager must also select the appropriate types of investment as defined in the Regulations.

**Investment Manager Controls**

The Investment Managers are authorised and regulated by the Financial Services Authority (FSA), and must comply with the regulations contained within the Financial Services and Markets Act 2000 (FSMA 2000). Under these regulations, the manager must ensure that suitable internal operating procedures and risk frameworks are in place. FSMA is designed to provide a Fund such as this with an adequate level of protection, and the Investment Managers are obliged to meet their obligation imposed by this act.

The mandates set for the Investment Managers contain controls to ensure compliance with best practice and regulations. Controls on cash levels and transfers of cash and assets are also set within the IMA's or equivalent pooled fund rules.

**Social Environmental and Ethical Considerations**

> 'The Pensions Committee has considered socially responsible investment in the context of its legal and fiduciary duties, and the view has been taken that, while the non-financial factors should not drive the investment process to the detriment of the financial return of the Fund, it is appropriate for the Investment Manager to take such factors into account when considering particular investments.
>
> Over the longer term, the Pensions Committee requires the Investment Manager(s) to consider, as part of the investment decisions, socially responsible investment issues and the potential impact on investment performance. Beyond this, the Investment Manager(s) has full discretion with the day to day decision making.'

## Corporate Governance and Voting Policy

### Corporate Governance Policy

'The policy of the Havering Pension Fund is to accept the principles laid down in the Combined Code as interpreted by the Institutional Shareholders Committee 'Statement of Principles'.

In making investment decisions the Council will, through its Pension Fund Investment Manager(s), have regard to the economic interests of the Pension Fund as paramount and as such

1. Will vote at all general meetings of UK companies in which the Fund is directly invested.
2. Will vote in favour of proposals that enhance shareholder value.
3. Will enter into timely discussions with management on issues which may damage shareholders' rights or economic interests and if necessary to vote against the proposal.
4. Will take a view on the appropriateness of the structure of the boards of companies in which the Fund invests.
5. Will take a view on the appropriateness of the remuneration scheme in place for the directors of the company in which the Fund invests

Beyond this, the Council will allow its Investment Manager(s) full freedom with the day to day decision making.

The Pensions Committee will, where appropriate,

6. Receive quarterly information from the Investment Manager, detailing the voting history of the Investment Manager on contentious issues.
7. Consider a sample of all votes cast to ensure they are in accordance with the policy and determine any Corporate Governance issues arising.
8. Receive quarterly information from the Investment Manager, detailing new investments made.'

### Stock Lending

The Committee has considered its approach to stock lending, taking advice from its investment adviser. After consideration of that advice, the Committee has decided only to permit stock lending by the Fund's passive equity manager, State Street.

State Street has agreed to indemnify the Fund against any loss arising from insufficient collateral being posted as part of its stock lending programme.

The Committee will review its policy on stocklending from time to time.

### Consultation and Publication

The Council has reviewed the Statement of Investment Principles in association with the Funds Investment Adviser and has also consulted with the employers of the fund, employee representatives and all fund managers through written correspondence.

A copy of this document together with the Myner's Statement of Compliance has been published on the Council's website www.havering.gov.uk (select Services - select Council and Democracy - select Pension fund).

The Statement of Investment Principles will be reviewed at least annually and a revised version issued as soon as any significant change occurs. Any comments and suggestions will be considered. Please contact the Pension Fund Accountant with your views at info@havering.gov.uk .

**MYNERS Principles for Investment Decision Making**

The Pensions Committee will regularly review the Scheme's compliance with this Statement of Investment Principles**.**

The Action the Council has taken to meet the recommendations made in the Myner's report has been updated to November 2011 and is available as an appendix to this statement.

| **Principle** | **Best Practice Guidance (CIPFA)** | **Havering Position/Compliance** |
|---|---|---|
| **1. Effective decision-making**<br><br>**Administrating authorities should ensure that :** | | **SUMMARY: FULLY COMPLIANT** |
| **(a) Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and** | 1) Administering authorities should have a designated group of elected members appointed to a committee to whom responsibility for pension fund activities have been assigned. | A designated group of elected members have been appointed to a Pensions Committee who are responsible for pension fund functions, as specified in the Council's constitution (Part 2 - Article 4). |
| **(b) those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest** | 2) Roles of the officers with responsibility for ensuring the proper running of the administration authority's and the committee's business should be set out clearly. The rules drawn up should provide a framework for the committee's code of business and include a process for the declaration of conflicts of interest. | Roles of the officers with responsibility for the running of the administrating authority's and the committee's business is specified in the Council's constitution (Part 3 - section 3). Declarations of interests are considered at the start of each committee meeting. |
| | 3) The committee should be governed by specific terms of reference, standing orders and operational procedures that define those responsible for taking investment decisions, including officers and/or external investment managers. | The Pensions Committee is governed by specific terms of reference and is specified in the Council's constitution (Part 3), officer functions are also specified (Part 3). |
| | 4) The process of delegation should be described in the constitution and record delegated powers relating to the committee. This should be shown in a public document, such as the statement of investment principles. | The delegation process for the running of the pension scheme is specified in the Council's constitution (Part 3). The Council's constitution is available via the Council's website at www.havering.gov.uk; follow links council and democracy, constitution. The Statement of Investment Principles (SIP) also includes the delegated functions to the Pensions Committee. |
| | 5) In describing the delegation process, roles of members, officers, external advisors and managers should be differentiated and specified. | Roles of members, officers, external advisors and managers are specified in the SIP. |
| | 6) Where possible, appointments to the committee should be based on consideration of relevant skills, experience and continuity. | Where possible, appointments made to the committee are based on consideration of relevant skills, experience and continuity. |

| Principle | Best Practice Guidance (CIPFA) | Havering Position/Compliance |
|---|---|---|
| | 7) The committee should ensure that it has appropriate skills, and is run in a way designed to facilitate effective decision making. It should conduct skills and knowledge audits of its membership at regular intervals. The adoptation of a training plan and an annual update of training and development needs would represent good practice to demonstrate that the committee is actively managing the development of its members. A statement should appear in the annual report describing actions taken and progress made. | Structured training of elected members ensures that members are proficient in investment issues. The Council incorporates training within its forward looking business plan for the fund. Forward looking business plan is presented at the first Pensions Committee meeting of the financial year and reported in the Pension Fund Annual Report. Members are in the process of completing the CIPFA's Knowledge and Skills self assessment of training needs. A strengthened training plan will be issued when the results of the self assessment has been collated. |
| | 8) The committee review its structure and composition regularly and provide each member with a handbook containing committee's terms of reference, standing orders and operational procedures. It is good practice to establish an investment or other subcommittee to provide focus on a range of issues. | Council recommends that the membership of the Pensions Committee remains static for the life of their term in office to facilitate continuity and helps to maintains expertise within the committee. Elected members are provided with a copy of their roles and responsibilities. The committee has not established any subcommittees as the Pensions Committee focuses only on the activities of the pension fund. |
| | 9) The committee may wish to establish subcommittees or panels to take responsibility for progressing significant areas of activity between meetings. | The Council does have a pension panel that exercises discretions within the LGPS and deals with the Internal Dispute Resolution Procedure regulations. |
| | 10) The committee should obtain proper advice from suitably qualified persons, including officers. The CFO should assess the need for proper advice and recommend to the committee when such advice is necessary from an external advisor. The committee should ensure that it has sufficient internal and external resources to carry out its responsibilities effectively. | The Pensions Committee has appointed two advisors – Investment Advisor and Actuarial Advisor. The Pension Fund Accountant provides in house support to members. The Pension committee is also supported by the Council's pension administration and payroll sections. Internal and external resources are considered as part of the business plan. |

| **Principle** | **Best Practice Guidance (CIPFA)** | **Havering Position/Compliance** |
|---|---|---|
| | 11) Allowances paid to elected members should be set out in a published allowances scheme and reviewed regularly. | Members of the Pensions Committee expenses are reimbursed in line with the Council's constitution (Part 6 -'Members Allowance Scheme') |
| | 12) Employees appointed as member representatives should be allowed adequate time off from normal duties to attend meetings. | Havering Council's conditions of service permits special leave up to a number of specified days for employees who act as a member of publicly elected body. |
| | 13) Papers and related documentation should be clear and comprehensive, and circulated to members of the committee sufficiently in advance of the meeting. | Committee policy established and ensures that target dates for report clearance and agenda dispatch targets are met. Members receives agendas five working days prior to meeting date. |
| | 14) The **CFO** should be given the responsibility for the provision of a training plan and ensure that members are fully aware of their statutory & fiduciary duties. | The Training Plan is incorporated within the Business Plan and includes a log of training undertaken and attendance. Indicative future training plans are also included in the business plan. |
| | 15) The **CFO** should ensure that a medium term business plan is created and contains: financial estimates for the investment and administration of the fund, appropriate provision for training, major milestones and issues to be considered, key targets and method of measurement. The business plan should be submitted to the committee for consideration. | The Business Plan is considered by the Pensions Committee and contains: financial estimates for the investment and administration of the fund, appropriate provision for training, major milestones and issues to be considered, key targets and method of measurement. The business plan also incorporates the training plan. |
| | 16) Business plan to review the level of internal and external resources the committee needs to carry out its functions. | Medium term Business Plan is considered by the Pensions Committee. The business plan includes the outcome of an internal review of resources, when appropriate. |
| | 17) Administrating Authorities are required to prepare, publish and maintain statements of compliance against a set of good practice principles for scheme governance and stewardship (Reg 31 2008 regulations). | The Pension Fund prepares, publishes and maintains a statement of compliance against a set of nine good practice principles. This statement shows the extent to which the administrating authority complies with the principles and is reviewed annually. |

| Principle | Best Practice Guidance (CIPFA) | Havering Position/Compliance |
| --- | --- | --- |
| | 18) Administrating authorities are required to publish a Governance Compliance Statement in accordance with CLG guidance. | The Governance Compliance Statement is available on the Council's website: www.havering.gov.uk (under Council and democracy, then Pension Fund) and is included in the Pension Fund Annual Report. |
| | 19) The fund's Administration Strategy documents should refer to all aspects of the committee's activities relevant to the relationship between the committee and the employing authorities. | In line with regulations, the fund currently does not have an administration strategy; consideration of adopting this strategy is reviewed regularly. |

| **Principle** | **Best Practice Guidance (CIPFA)** | **Havering Position/Compliance** |
|---|---|---|
| **2. Clear objectives** | | **SUMMARY: FULLY COMPLIANT** |
| **(a) An overall investment objective (s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and these should be clearly communicated to advisors and investment managers.** | The committee should: | As part of the Valuation process consideration is given, with full consultation of the fund's actuary, to : |
| | 1) demonstrate that in setting an overall objective of the fund it has considered: the fund's liabilities in the context of expected net contribution inflows; the adequacy of the fund's assets to meet its liabilities; the maturity profile of the fund's liabilities and its cash flow situation. | the fund's liabilities in the context of the expected net contribution inflows; adequacy of the assets to meet its liabilities; maturity profile and its cash flows; |
| | 2) consider the nature of membership profiles and financial position of the employers in the fund and decide, on the advice of actuaries, whether or not to establish sub funds. | membership profiles; financial position of the employers and whether or not to establish a sub fund; |
| | 3) seek to include the achievement of value for money and efficiency in its objectives and all aspects of its operation | value for money; |
| | 4) with the **CFO** need to give consideration to the general and strategic impact of the funding levels and employer contribution rates on Council tax levels over time. The responsibility of the actuary to keep employer contribution rates as constant as possible over time is the primary means of achieving this. | and the general and strategic impact of the funding levels and employer contribution rates on Council tax levels over time.<br><br>The Fund's investment policies and objectives are laid out in the Funding Strategy Statement (FSS). |

| Principle | Best Practice Guidance (CIPFA) | Havering Position/Compliance |
|---|---|---|
| | 5) consider its own appetite for risk and that of the employers in the fund when considering advice on the mix of asset classes and on active and passive management. Consider all assets classes currently available to members. | The Pensions Committee considers, in consultation with the fund's investment advisor, its own appetite for risk when setting the investment strategy and considers the mix of asset classes and weighs up the risk v return in considering whether the assets are managed on a passive or active basis. The Investment Strategy currently includes a mix of different asset classes which are managed actively and passively. |
| | 6) take proper advice and should appoint advisors in open competition and set them clear strategic investment performance objectives. The committee should state how the advisors' overall performance will be measured and the relevant short, medium and longer term performance measurement framework. All external procurement should be conducted within the EU procurement regulations and the administrating authority's own procurement rules. | The Pensions Committee appoints external advisors in line with EU procurement rules and the administrating authorities own procurement rules. The committee states how performance is to be measured for the advisors and a service review is undertaken and reported to the committee annually. The contract for the external advisor is tendered on a five year cycle enabling performance to be measured in a competitive environment. |
| | 7) also demonstrate that it has sought proper advice, including from specialist independent advisors, as to how this might be expressed in terms of the expected or required annual return on the fund and how it should be measured against stated benchmarks. | After full consultation with the Council's Actuary and Investment Advisers a clear financial and therefore fully measurable investment objective for the fund has been set. |
| | 8) consider when it would be desirable to receive advice based on an asset/liability study and make appropriate arrangements. | Following the 2007 Valuation the Pensions Committee commissioned the fund's investment advisor to undertake an asset liability study, the results of which were used in formulating the current and ongoing investment strategy |

| Principle | Best Practice Guidance (CIPFA) | Havering Position/Compliance |
|---|---|---|
| | 9) evaluate the split between equities and bonds before considering any other asset class. It should state the range of investments it is prepared to include and give reasons why some asset classes may have been excluded. Strategic asset allocations decision should receive a level of attention (and, where relevant, advisory or management fees) that fully reflects the contribution they can make towards achieving the fund's investment objectives. | All asset classes were considered as part of the investment strategy review process and the range of investments are included in the Fund's SIP. |
| | 10) have a full understanding of the transaction-related costs incurred, including commissions, and have a strategy for ensuring that these costs are properly controlled. | Fund managers report periodically on transaction costs. Transaction costs are collated and disclosed in the statement of accounts. |
| | 11) Understanding transaction-related costs should be a clear consideration in letting and monitoring a contract and where appropriate, independent and expert advice should be taken, particularly in relation to transition management. | Understanding transaction costs are considered and where appropriate expert advice would be sought. |
| | 12) The use of peer group benchmarks should be for comparison purposes only and not to define the overall fund objective. | The committee uses the services of WM Performance Measurers for independent monitoring of performance against benchmarks. Peer group benchmark performance is used for comparison purposes only. |

| **Principle** | **Best Practice Guidance (CIPFA)** | **Havering Position/Compliance** |
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| **3. Risk and liabilities** | | **SUMMARY: MAJORITY COMPLIANT** |
| **a) In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.** | The committee should: | |
| **b) These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.** | 1) set an overall investment strategy for the fund that: represents its best judgement of what is necessary to meet the fund's liabilities given its understanding of the contributions likely to be received from employer (s) and employees; takes account of the committee's attitude to risk, and specifically its willingness to accept underperformance due to market conditions. | A full investment strategy review was carried out following the actuarial valuation results in 2007 and reassessed following the 2010 Valuation results. The fund has formulated its own asset allocation based on identified liabilities particular to the fund; this was determined as a result of asset liability modelling exercise undertaken by the funds' investment advisors in 2008. The fund investment strategy was adopted having considered the members attitude to risks and are covered in the SIP and FSS. |
| | 2) ensure that its investment strategy is suitable for its objectives and takes account of the ability to pay of the employers in the fund. | |
| | 3) consider the extent to which the cash flow from the fund's assets should attempt to match the liabilities and the relevant timing. It should also consider the volatility of returns it is prepared to accept. | |
| | 4) be aware of its willingness to accept underperformance due to market conditions. If performance benchmarks are set against relevant indices, variations in market conditions will be built in, and acceptable tolerances above and below market returns will be stated explicitly. Benchmarks are likely to be measured over periods of up to seven years. | The Fund in aggregate has a liability related benchmark (strategic benchmark). However for individual mandates, the fund managers have a specific benchmark (tactical benchmark) and a performance target that may be based on broad indices or composites. The targets are shown in the Fund's SIP. |
| | 5) believe that regardless of market conditions, on certain asset classes, a certain rate of return is acceptable and feasible. | Expected returns for individual asset classes were considered when choosing investments and are shown in the SIP. |

| Principle | Best Practice Guidance (CIPFA) | Havering Position/Compliance |
|---|---|---|
| | 6) state whether a scheme specific benchmark has been considered and established and what level of risk, both active and market risk, is acceptable to it. | Also included in the SIP is the acceptable measure of risk on the returns. |
| | 7) receive a risk assessment in relation to the valuation of its liabilities and assets as part of the triennial valuations. Where there is reasonable doubt during performance monitoring of the fund about valuation of assets and liabilities the CFO should ensure that a risk assessment is reported to the committee, with any appropriate recommendations for action to clarify and/or mitigate the risks. | The fund receives a risk assessment as part of the Valuation process with full consultation of the fund's Actuary. Performance is monitored and reported to the committee on a quarterly basis and includes recommendations for action where appropriate. Liabilities are only considered as part of the triennial valuations; however cash flow is monitored monthly and reported to committee quarterly. |
| | 8) at the time of the triennial valuations, analyse factors affecting long-term performance and receive advice on how these impact on the scheme and its liabilities. The committee should also ask this question of its actuaries and other advisors during discussions on performance. | |
| | 9) use reports from internal and external auditors to satisfy itself about the standards of internal control applied to the scheme to its administration and investment operations. Ensuring effective internal control is an important responsibility of the **CFO.** | The external auditors opinion is included in the Pension Fund Annual Report. Internal control audits for pensions are undertaken annually by internal auditors and are reported to Audit Committee. Any identified issues would be reported to the Pensions Committee. Audited Internal Control reports are submitted by the Investment Managers and checked by officers for matters of concerns. |
| | 10) The fund's Statement of Investment Principles should include a description of the risk assessment framework used for potential and existing investments. | The Pension Fund's Statement of Investment Principles includes a description of the risk assessment framework. |
| | 11) Objectives for the overall fund should not be expressed in terms that have no relationship to the fund's liabilities, such as performance relative to other pension funds, or to a market index. | Objectives for the overall fund are set having regard to: the advisability of investing fund money in a wide range of investments; the suitability of particular investments and types of investments and the results of asset/ liability modelling. |

| **Principle** | **Best Practice Guidance (CIPFA)** | **Havering Position/Compliance** |
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| | 12) The Annual Report of the pension fund should include an overall risk assessment in relation to each of the fund's activities and factors expected to have an impact on the financial and reputational health of the fund. This could be done by summarising the contents of a regularly updated risk register. An analysis of the risks should be reported periodically to the committee, together with necessary actions to mitigate risk and assessment of any residual risk. | The Pension Fund currently does not have an overall risk assessment in the form of a risk register, although ongoing risks are considered as part of the monitoring process. **ACTION**: Monitoring risk in the form of a risk register is under consideration. |

| **Principle** | **Best Practice Guidance (CIPFA)** | **Havering Position/Compliance** |
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| **4. Performance assessment** | **Investments** | **SUMMARY: MAJORITY COMPLIANT** |
| **a) Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors** | The committee should: | |
| | 1) explicitly consider, for each asset class invested, whether active or passive management would be more appropriate; where it believes active management has the potential to achieve higher returns, set both targets and risk controls that reflect this, giving managers the freedom to pursue genuinely active strategies; if setting limits on divergence from an index, ensure that they reflect the approximations involved in index construction and selection. | During the investment strategy review the Pension Fund considered and adopted its own asset allocation in full consultation with the fund's investment advisors, it considered and initially adopted full active management with appropriate targets and risk controls set. In light of the market events that followed, the Pensions Committee, after assessing the risks, agreed to reduce some of the active management and switch to passive management in relation to UK and oversees equities. |
| **b) Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision- making body and report on this to scheme members** | 2) explicitly consider, in consultation with its investment manager (s), whether the index benchmarks are appropriate, and in particular, whether the construction of the index creates incentives to follow sub-optimal investment strategies | Benchmarks are set in agreement with the fund's investment manager (s) |
| | 3) Where active management is selected, divergence from a benchmark should not be so constrained as to imply index tracking (i.e. passive management) or so wide as to imply unconstrained risk. | |

| **Principle** | **Best Practice Guidance (CIPFA)** | **Havering Position/Compliance** |
|---|---|---|
| | 4) Performance targets in relation to benchmark should be related to clear time periods and risk limits and monitoring arrangements should include reports on tracking errors. | Performance monitoring reports are presented to the committee quarterly and covers the latest quarter, rolling one year and three year performance. Where appropriate fund managers will report tracking errors. Each Fund Manager presents their performance reports to the committee on alternate quarters, on each alternate quarters they meet with officers. This is with the exception of the passive equity manager and the absolute return manager who reports to officers and the committee twice a year. |
| | 5) Although returns will be measured on a quarterly basis a longer time frame (three to seven years) should be used to assess the effectiveness of the fund management arrangements and review the continuing compatibility of the asset/liability profile. | The asset /liability profile is considered at each triennial valuation. |
| | 6) Investment activity in relation to benchmark should be monitored regularly to check divergence and any impact on overall asset allocation strategy. | In addition to officer reports, the investment adviser monitors and reports quarterly to the Pension Committee on performance, personnel, process and organisational issues of fund managers.  The fundamental risk of the investment strategy not delivering the required – net of fee- return is measured quarterly in terms of the overall financial objective. |
| | 7) Returns should be obtained from specialist performance agencies independent of the fund managers. | The Pension Fund uses the services of WM performance measurers who independently report against the overall fund and individual manager returns on a quarterly basis. WM returns are monitored against fund manager returns and discrepancies are investigated. WM also produce an annual performance report. |

| Principle | Best Practice Guidance (CIPFA) | Havering Position/Compliance |
|---|---|---|
| | 8) Investment manager returns should be measured against their agreed benchmark and variations should be attributed to asset allocation, stock selection, sector selection and currency risk, all of which should be provided by an independent performance measurement agency | Each quarter, WM measure fund manager returns against their agreed benchmarks and variations are attributed to asset allocation and stock selection. Relative risk is also measured and the degree of the manager deviating from the benchmark is included in the WM report. |
| | 9) In addition to the overall fund returns the return achieved in each asset class should be measured so that the impact of different investment choices can be assessed (e.g. equities by country, fixed interest by country and type etc). | The Pension Fund does not measure fund returns on an asset class basis because the focus is on how individual manager performance contributes to the overall fund performance. However the weightings in each asset class are monitored and reported. |
| | 10) The use of peer group benchmarks (such has CIPFA/WM) may not be appropriate for directing a mandate of a manager insofar as they infer a common asset liability structure or investment requirement. Such benchmarks can be used for comparative information. | WM performance returns against peer group benchmarks are used for comparison purposes only. |
| | 11) The mandate represents the instruction to the manager as to how the investment portfolio is to be managed, covering the objective, asset allocation, benchmark, flexibility, risk parameters, performance targets and measurement timescales. | The mandate agreed with the investment manager includes how it is to be managed and covers the objective, asset allocation, benchmark, flexibility, risk parameters, performance targets and measurement timescales. |
| | **Advisors**<br>12) The committee should devise a performance framework against which to measure the cost, quality and consistency of advice received from its actuaries. It is advisable to market test the actuarial service periodically. | Annual service assessments are undertaken for the services provided the Fund's actuary and advisors. They are measured against a set of criteria adopted by the Pension Committee. |
| | 13) It is necessary to distinguish between qualitative assessments (which are subjective) and quantitative reviews which require the compilation of series of data and are therefore more long term by nature. | |

| Principle | Best Practice Guidance (CIPFA) | Havering Position/Compliance |
|---|---|---|
| | 14) Consultants should be assessed on a number of issues including the appropriateness of asset allocation recommendations, the quality of advice in choosing benchmarks and any related performance targets and risk profiles. The quality and appropriateness of the investment managers that are recommended and the extent to which advisors are proactive and consistent in recommending subsequent changes. | |
| | 15) When assessing managers and advisors it is necessary to consider the extent to which decisions have been delegated and advice heeded by officers and elected members | |
| | **Decision-making bodies**<br>16) The process of self assessment involves both officers and members of the committee reviewing a range of items, including manager selection, asset allocation decisions, benchmarking decisions, employment of consultants and best value outcomes; | Pensions Committee performance is reviewed as part of the Annual Report. Performance can be measured by the success or otherwise of the strategy put in place and the individual performance of investment managers appointed by the committee, and full compliance with governance requirements including attendance at all training sessions. |
| | 17) the objective of the reviews would be to consider whether outcomes were as anticipated, were appropriate, or could have been improved. | |
| | 18) The committee should set out its expectations of its own performance in its business plan. This could include progress on certain matters, reviews of governance and performance and attendance targets. It should include standards relating to administration of the committee's business such as: | The Business Plan sets out the expectations of the committee. |

| **Principle** | **Best Practice Guidance (CIPFA)** | **Havering Position/Compliance** |
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| | 19) attainment of standards set down in CIPFA's soon to be published knowledge and skills framework; achievement of required training outcomes; achievement of administrative targets such as dates for issuing agendas and minutes. | Achievement of training outcomes are self assessed by the Pensions Committee. Targets such as dates for issuing agendas and minutes are strictly adhered to or reports are not presented (unless exceptional circumstances).<br>**ACTION**: The pensions committee members are currently in the process of completing the Knowledge and Skills Framework self assessment forms, the results will be feed into the training plan. |
| | 20) This assessment should be included in the fund's Annual Report. | The assessment of the committee expectations and training are included in the Annual Report |

| **Principle** | **Best Practice Guidance (CIPFA)** | **Havering Position/Compliance** |
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| **5. Responsible ownership**<br><br>**Administrating authorities should:**<br>**a) adopt, or ensure their investment managers adopt, the Institutional Shareholders' committee Statement of Principles on the responsibilities of shareholders and agents**<br><br>**b) include a statement of their policy on responsible ownership in the statement of investment principles**<br><br>**c) report periodically to scheme members on the discharge of such responsibilities.** | | **SUMMARY: FULLY COMPLIANT** |
| | 1) Policies regarding responsible ownership must be disclosed in the statement of investment principles which must be contained the annual report. | Policies on Social Environmental and ethical considerations are disclosed in the SIP, a copy of which is also included in the Pension Fund Annual Report. |
| | 2) Responsible ownership should incorporate the committee's approach to long term responsible investing including its approach to consideration of environmental, social and governance issues. | The Pension Committee has considered socially responsible investments and the view has been taken that non-financial factors should not drive the investment process to the detriment of the financial return of the fund. |
| | 3) The committee should discuss the potential for consideration of environmental, social and governance issues to add value, in accordance with its policies on responsible investing, when selecting investment managers and in discussing their subsequent performances. | Over the long term, the Pensions Committee requires the investment mangers to consider, as part of the investment decisions, socially responsible investment issues and the potential impact on investment performance. |
| | 4) Authorities may wish to consider seeking alliances with either other pension funds in general, or a group of local authority pension funds, to benefit from collective size where there is a common interest to influence companies to take action on environmental, social and governance issues e.g. LAPFF. | |
| | 5) It is important to ensure that through the terms of an explicit strategy that an authority's policies are not overridden, negated or diluted by the general policy of an investment manager. | The SIP is distributed to fund managers so that they are aware of the overall strategy. Fund managers are included in the consultation process if there are major changes. |

| Principle | Best Practice Guidance (CIPFA) | Havering Position/Compliance |
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| | 6) Where the exercise of voting action is separated from the investment manager, authorities should ensure that the appropriate investment decision is taken into account by reference to those appointed to manage the investments. Authorities may use the services of external voting agencies and advisors to assist compliance in engagement. Measuring effectiveness is difficult but can only be achieved by open monitoring of action taken | Fund managers have been given delegated authority to vote in accordance with their proxy voting policies. Voting activity is reported quarterly and made available for the Pensions Committee to review. |
| | 7) The committee should ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company that is acceptable within the committee's policy. | Consideration of compliance will need to be given for future appointments. For existing investment managers, where applicable they are compliant or work is well underway to becoming compliant. |
| | 8) The committee should ensure that investment consultants adopt the institutional shareholder committee (ISC) statement of practice relating to consultants. | The ISC is a **voluntary** code of practice and applies to institutional investors on a comply-or-explain basis. Currently all but one of the funds investment consultants have adopted the voluntary code. |
| | 9) The ISC's Statement of Principles on the responsibilities of shareholders and agents sets out best practice in relation to their responsibilities in respect of investee companies, in that they will: set out their policy on how they will discharge their responsibilities; monitor the performance of, and establish, where necessary, a regular dialogue with investee companies; intervene where necessary; evaluate the impact of their engagement and report back to clients and beneficial owners. | |
| | 10) The United Nations Environment Programme Finance Initiative (UNEP FI) has published Principles for Responsible Investment (UNPRI) and has encouraged asset owners and asset managers to sign up and commit to the principles | |

| **Principle** | **Best Practice Guidance (CIPFA)** | **Havering Position/Compliance** |
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| **6. Transparency and reporting**<br><br>**Administrating authorities should:**<br><br>**a) act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives**<br><br>**b) provide regular communication to scheme members in the form they consider most appropriate.** | The committee should: | **SUMMARY: FULLY COMPLIANT** |
| | 1) ensure that its Governance Compliance Statement is maintained regularly. It should actively challenge any non- compliance and be very clear about its reasons for this and be comfortable with the explanations given. | The Governance Compliance Statement is considered and reviewed by the Pensions Committee on an annual basis. Any non-compliance is reported and necessary actions included. |
| | 2) have a comprehensive view of who its stakeholders are and the nature of the interests they have in the scheme and the fund. There should be a clearly stated policy on the extent to which stakeholders will take a direct part in the committee's functions and those matters on which they will be consulted. | The Governance Compliance Statement includes a statement on the extent to which stakeholders will take a direct part in the Pensions Committee's functions. Stakeholders are consulted and notified on major strategic and legalisation matters. |
| | 3) build an integrated approach to its own governance and to communicating this and all other aspects of its work to its stakeholders. | The work of the Pensions Committee is publicly available on the Councils website at www.havering.gov.uk, follow links for council & democracy, committees, then pension committee. There is also a dedicated page on the Council's website for the pension fund under the page for council and democracy and how the work is communicated to its stakeholders is included in the fund's Communication Strategy. |
| | 4) seek examples of good practice from the published reports and communication policies of other pension funds. It should also share examples of its own good practice. The full range of available media should be considered and used as appropriate. | Havering has undertaken partnership working with the London Pension Fund Authority who have developed a website to enable pension sharing best practices across the London boroughs at www.yourpension.org.uk. Havering Pension Fund is also members of the CIPFA Pensions Network and the London Pension Fund Forum which are good sources of sharing best practices. |

| Principle | Best Practice Guidance (CIPFA) | Havering Position/Compliance |
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| | 5) compare regularly its annual report to the regulations setting out the required content and, if the report does not fully comply with the requirements, should ensure that an action plan is produced to achieve compliance as soon as possible. | The required content of the Annual Report complies with that stated in the LGPS (Administration) Regulations 2008. |
| | 6) The Funding Strategy (FSS), the Statement of Investment Principles (SIP) and the Governance Compliance Statement are core source documents produced by the fund to explain their approach to investments and risks. | The FSS, the SIP and the Governance Compliance Statement are available on the Council's website at www.havering.gov.uk and are included on a dedicated page for the Pension Fund under the link for council and democracy. This page also includes the pension fund's Communication Strategy. Where applicable reference to all these documents is made in other publications. |
| | With regard to the FSS and SIP, they should:<br>7) contain delegation process and the roles of officers, members, external advisors and managers should be differentiated. The process by which the overall fund allocation process has been determined and include reference to assumptions as to future investment returns; mandates given to managers should describe fees structures, scale of charges, whether ad valorum or fixed, performance element built in, stating the implications for risk control; copies should be made available and its availability made clear in publications. | The policies includes: the delegation process and the roles of officers, members, external advisors and managers are differentiated; the process by which the fund allocation process has been determined and includes references to assumptions on future returns; mandates given to each manager are described, including fees; and implications for risk control. |
| | With regard to the Governance Compliance Statement it must include: | |
| | 8) information on whether administrating authority delegates, the whole or part function; if it does delegate must state frequency of meetings, terms of reference, structure and operational procedures. It must also include whether the committee includes representatives of employing authorities and if so, whether they have voting rights. | The Governance Compliance Statement includes information on the administering authorities delegation process and functions delegated to the Pensions Committee. It also includes the frequency of meetings, terms of reference, structure and operational procedures. |

| **Principle** | **Best Practice Guidance (CIPFA)** | **Havering Position/Compliance** |
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| | 9) details of the extent to which it complies with CLG guidance. Where the statement does not comply, reasons must be given. A copy of the statement must be sent to the CLG. | The Governance Compliance Statement also includes a table which shows the extent of compliance with CLG guidance and a copy has been sent to the CLG. |
| | With regard to the fund's Communication Strategy it must: | |
| | 10) set out the administering authority's policy on: the provision of information and publicity about the scheme to members, representatives of members and employing authorities; the format, frequency and method of distributing such information or publicity; the promotion of the scheme to prospective members and their employing authorities. | The Communication Statement includes: the administrating authorities policy on provision of information and publicity about the scheme, it also includes the format, frequency and method of distribution of such information. |